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Persistence in Reform To Avoid Stagnation Underscored

40050170 Hong Kong CHING PAO [THE MIRROR] in Chinese No 137, Dec 88 pp 18-24

[Article by Kao Yu 7559 3842: "How Can China Get Through Its Difficulties; What is the Course for Reform?—A Dialogue Between Yan Jiaqi 0917 1367 0366 and Wen Yuankai 3306 0337 0418"]

[Text] The way out for reform of China's economy lies in reform of the system of ownership. Principles for fair competition have to be established to insure no infringement of either publicly owned or privately owned property.

This will require reform of the political system. The prime issue in political system reform is revision of the constitution during the 1990's to establish the constitution as the supreme authority.

A willingness to sacrifice and to pay a price has to be encouraged; if everybody tightens their belts, the situation will not be all that grim.

There is need for vigilance lest advantage be taken of difficulties in reform to seize power, thereby causing China to stagnate or regress. "Stagnation would be worse than defeat," once stagnation occurs, China's modernization will be delayed for 50 years.

In January 1987, I wrote two articles for readers of CHING PAO about long discussions by two provincial officials from Sichuan. These articles concerned a 13 December 1986 dialogue on "Humanitarianism and Political Reform" between Ba Jin [1572 6855] and Deng Pufang [6772 2613 2455]. I termed it a "truthful" dialogue about China in the 1980's that will echo in history. That happened to be on the eve of a gathering storm of campus upheaval, a campus upheaval that has become a matter that present and future writers of the history of reform in China will be unable to ignore.

In concluding the dialogue, Deng Pufang said that "we estimate that the next 10 years will be extraordinarily difficult, and it will be extremely difficult especially for those comrades who want to work. However, there will always be a number of comrades who take on this work." Ba Jin replied, "We must get through this difficulty."

Happily, history has made the words of those two come true. History should always fully repay those who speak truth. The wheel of China's reforms, which has not yet completed two revolutions during the 1980's, is finding it hard to continue to turn. One can say that it has become mired in a "predicament," or in a "crisis," or in a "quagmire." The point is that people throughout the world see this very clearly. What is the issue about which Chinese who genuinely desire reform are most concerned about from policy makers at the top to the intellectuals, entrepreneurs, workers, peasants, and separate households? It is that sentence of Ba Jin's: "We must get through this difficulty." But how will we get through it? An increasing number of Chinese share the realization that the way is to "let the people speak the truth." This is probably the only way now.

Recently, I again had the good fortune to meet two people. They were from Jiangsu Province. One of them was Yan Jiaqi from Changzhou, and the other was Wen Yuankai from Shanghai.

Yan and Wen Are Both Doers

On 16 November, another high level symposium on China's culture, the "Enterprises Cultural Symposium" was held at the Beijing Hotel as a follow-up to "29 April" that had been proposed by Guang Yuan [0342 6678] and organized and convened by Ge Yang [2047 7122]. Everyone at the meeting was concerned about Yan Jiaqi and Wen Yuankai, who appeared thin yet not weak, and capable yet not vigorous. These two authors go back not just to the same province of birth, but they also grew up in the same cradle of Chinese natural sciences, Chinese Scientific and Technical University. Yan Jiaqi graduated in 1964 from the university's applied mathematics department, and Wen Yuankai was assigned as an instructor at the university in 1976, where he remains as the director of the applied chemistry department.

Some Chinese intellectuals involved in the natural sciences either switched to or simultaneously studied social politics, and they have made a valuable contribution during the past 10 years in building a body of ideological theory to guide China's reform. This has become a phenomenon extraordinarily deserving of study in Chinese academic circles, and though it has attracted entirely different kinds of discussion from different quarters, both Yan and Wen are integral parts of the process that created this phenomenon. This is a generally acknowledged fact.

Yan Jiaqi participated 10 years ago in the "Conference on Principles and Policies, Theories, and Thinking." At that conference, he had the astounding courage and perspicacity to propose abolition of the "life term system" for the highest leaders in the Party and the state. Prior to this time, he had gained fame both at home and abroad as a result of his magnum opus, "The Three Courts, 'Religion, Reason, and Practice'." During the past 10 years, he has written "On Heads," "History of 10 Years of Cultural Revolution," "Authority and Truth," and "Biography of My Thoughts." He is a pioneer and a leader in the Chinese political science realm.

Wen Yuankai said of himself that "I am a computer-equipped bulldozer!" In 1977, at the age of 31, he took part in a State Council symposium of scientific and educational workers personally convened by Deng Xiaoping on the fifth day following his second rehabilitation. Wen's proposal at that symposium for "strict

examinations, and selection of the finest for enrollment" in universities won Deng Xiaoping's on-the-spot endorsement. This provided the earliest inkling that the system of enrollment in institutions of higher education was to be reformed. Following his return from France in 1982, he again addressed a statement to the central authorities proposing reform of the scientific and technical education system, and he devoted himself personally to the practice of reform, using his status as a professor to become the general manager of the Science and Technology University's Zhenhua New Technology Development Company. In 1985, he was one of the small number of people struck by arrows who were not unseated from their mounts. After 1985, he engaged in a study of the correlation between traditional Chinese culture and reform, writing seven works including "Reform and the Transformation of the National Character." He is a pioneer and promoter of the great tide of Chinese reform.

At the "Enterprises Cultural Symposium," the writer invited these two men from Jiangsu to engage in a dialogue. In recent years, these two scholars have attracted international attention through their academic accomplishments, and they have frequently been active on the international academic stage. They are "doers" in fact as well as in name. In the future, China will be bound to become economically, politically, and spiritually very much one with world civilization. This is a trend that Chinese reform cannot reverse. In this process, our "doers" have played a distinctive and irreplaceable role, which was a major reason why I invited them to engage in a dialogue.

Yan and Wen come from two different academic disciplines, and they differ widely in their thinking, style, and academic demeanor; however, their dialogues do not contain the equivocation and indefiniteness that is customary from some scholars. They talk about the issues that are most pressing and most crucial in China's reform, supporting and agreeing with each other. I feel that this trait will probably even more cause readers to think deeply.

It is with sincerity and profoundity that I record another "true" Chinese dialogue in the 1980's for readers of CHING PAO.

Now Allow a Brezhnev Style Stagnation To Occur

Yan: You just said at the conference that the chariot of China's reform has become bogged down in a quagmire. This is a metaphor to show that reforms have encountered serious difficulties. Nevertheless, Chinese reform does not lack a way out. Today, everyone feels there is no way out, and they do not know what to do. This has become a major problem in China today.

Wen: I have three estimates of the present state of reform in China. China's reforms are now facing three choices. The first is to do nothing allowing whatever will happen to happen. If reform stops, China will sink deeper and deeper into the quagmire. **The second choice seems to be the one we are now in process of doing, namely "going in reverse" in the hope of extricating ourselves from the quagmire and finding a new road. Certainly, it is necessary to take back authority and to retrench, but there is also a danger in this, namely that "10 years of hard work will be lost and we will be back to the situation before reform overnight." We have already seen how after having pulled back for many years, Poland and Czechoslovakia have had to begin at the beginning once again. That is frightening. What I am exploring now is the third choice, which is whether it is possible to move ahead to get out of the crisis and out of the quagmire so that the "deepening of reform" does not become an empty phrase. I fear lest the current readjustment, the "harnessing of the economic climate, and the restructuring of the economic order" may completely sweep away the "deepening of reform."**

Yan: Where does the crisis lie? Much turmoil has arisen in reform, and it seems solutions cannot be found. The feelings of the people are very important. Disappointment with reform can cause various kinds of reversals or stagnation. When reversals and stagnation reach a certain point, the situation is bound to call for new reform, and if this time lengthens to 5 or 10 years, the damage to China will be extraordinarily serious. One can see from the history of the USSR that Nikita Khrushchev was a major reformer. Josip Tito realized the ills of the socialist system earlier than he; however, it was Khrushchev who really stirred people up about the ills of Soviet socialism. Khrushchev's reforms bogged down in a quagmire, and after nearly 20 years of stagnation under Leonid Brezhnev, only now have they been put back on the path of Mikhail Gorbachev's reforms. In fact, Gorbachev's reforms summarize the lessons of experience of Khrushchev's reforms, reforms being carried out after a long period of stagnation. I hope that when China's reforms encounter difficulties, such a long period of Brezhnev-like stagnation will not ensue.

Wen: Very good.

Yan: If 5 or 10 years of stagnation really ensues, the stagnation will produce new problems that will make China fall even farther behind. Then, we will have to start reform anew under a new Gorbachev-like person.

Wen: Right!

Yan: I hope that China's current leaders will be able to keep faith with reform and not seek a way to retreat, but will continue to use reform to overcome difficulties in reform. The main problem now is how to find a way out of difficulties.

Four Factors Permit No Reversal

Wen: I feel that a very clear understanding of the economy is very important in making an estimate as to whether the situation is really in such a serious state. In

comparing today's crisis with the same difficulties that occurred in 1962, I believe the situation is not the same as then in terms of total economic strength. After all, it is not at the stage where people cannot make a living. Today's problems of a shortage of goods in markets when the people have cash in hand, and the problems of overall supply not being able to keep up with overall demand have not reached the stage of 1962 when people could not get food to eat. Of course, a food shortage next year is a possibility, but the issue is that things are not that serious after all. I approve one of SHIJIE JINGJI DAOBAO's statements, namely, "Do not be scared by the current situation." In other words, do not be panic-stricken, greatly agitated, and thrown into confusion by the current situation, and particularly do not let reform produce turmoil or even carry away the reformers. I believe that there has to be a way out. A substantial number of individual households and private entrepreneurs have become rich in the past 2 years.

Wen: There have been so-called "reversals" in this, but one cannot say total "reversal." I believe there are four factors in China today that will permit no reversal of reform. The first is the peasants who gained material benefits following rural reform cannot imagine ever again learning from Dazhai, or working for workpoints. Another factor is the peasant township and town enterprises. I have gone to very many places such as townships and towns in south China where entrepreneurs are not afraid of cutbacks. When you run a bird cage economy, before the bird cage has been built, the little sparrows will have flown away, and they will have their own method of flying away because sparrows have flown like this for many years. They do not fear regulation and control; there are only slightly affected by it. This is the meaning of vitality. Second is the enlivening of coastal areas, particularly in south China. Can this be reversed? Will it heed your orders? It will not. Moreover, you can see that it is very strongly able to withstand inflation and the panic buying craze. The effect of your regulation and control of cutbacks is very slight, and reliance on your banks is also very slight. It is prepared to accept very great effects. Third is the opening of society. The tens of thousand students studying abroad, the several hundred thousands of people who go abroad on exchanges every year, the several million tourists, and the countless joint venture enterprises, as well as cultural exchanges make it impossible for China to be cut off from information again. China's every major way of doing things will be subject to ever more intense international feedback as well as feedback from the newspaper world. In fact, this has become a force that produces substantial impact on China. Finally, we should look at whether China's major policy decisions affect the rise and fall of the Hong Kong stock market. If the Hong Kong stock market slides too seriously, our own pressure will be unbearable. In addition, the feelings of foreign investors have to be looked at. In fact, China's actions have caused foreign investors today to lose confidence in the domestic market, and investment has declined markedly. Consequently, we have to make repeated announcements. Fourth, during the past several years, a large number of entrepreneurs, men of action, ideologues, theoreticians, cadres, and even leaders possessed of more modern qualities and style, modern traits, and a newer cultural outlook have slowly matured. These people cannot go back. When I visited the "Sitong Company," not one of 700 officers or rank and file wanted to go back to the iron rice bowl way of working. This means that 700 people have broken with the past, and do not want to return to an iron rice bowl. This is irreversible; this is vitality.

Therefore, we recently had the pleasure of spreading the suggestion that the term "individual household" be abolished. The term "individual household" is a nondescript term. How can an individual turn into a "household"? We suggest that the term be changed to "private ownership entrepreneur." **"Private ownership entrepreneurs" should be allowed to become a decisive force in China. This is in keeping with the current policies of the central authorities. We are prepared to find a "private ownership entrepreneurs' association."**

Yan: Call it "private" not "private ownership." The term "private enterprise" is more appropriate.

Concerted Efforts Can Stabilize the Situation

Wen: China lacks money and capital, including money from banks. Large amounts of money are in the hands of individual households. They do not put it in banks, but bury it under the old scholar tree, brick it up in walls, or even spend it on dissipation or on practicing feudal superstitions. In Wenzhou, there is a craze for repairing tombs. If people are to have a devoted frame of mind and to be made compatible, reform of the political system will have to be undertaken to increase transparency. To still suppose that reliance can be placed on a small number of elite working behind closed doors to find a way out for reform is a mistake! **Only by increasing transparency and promoting political system reform can the devotion of more Chinese be obtained, and the people have a willingness to participate.** Yesterday in Beijing, a certain Mr Chen talked volubly about the need to change the "people's democratic dictatorship" to the "people's democratic participation in government." He spoke extraordinarily well. This is the way to a major trend and the only way to evoke a willingness to sacrifice and pay a price for reform on the part of the people. **I believe that if people gave money when they had money, and helped when they could the way they did before the war of resistance to Japan, the situation would not be that critical.** Isn't there a fear today that the people will stage a run on the banks? Or do panic buying? If they do not do these things, then isn't the situation not all that serious? Conversely, if the money in the hands of the people were turned into stock shares, wouldn't your money market come to life? Clearly, the people have money to spend nowadays. One expert estimates that during the past several years about $1 billion in foreign exchange has been put into private savings, and that more than $4 billion in foreign exchange is in the hands of the people.

Some people say it well when they say "gold, wood, water, fire, and earth." Bring out the gold and retire currency from circulation! "Wood" means make housing privately owned, and 90 million will come. "Water" means further opening to the outside world. "Fire" means further export of fuel. "Earth" means further separation of land use rights and management rights. I feel that more people should express their ideas; this will be bound to give further impetus to political reform. I personally do not feel there is no way out for reform; I am still an optimist.

Yan: I feel that there is a problem in estimating the situation. First of all, 10 years of reform have scored very great achievements; this is acknowledged throughout the world.

Reform Lacks Fair Competition Principles

YanNot to take this matter of principles for fair competition into account will not do. It is impossible to go backward, to go back will not do. Going back will produce even greater and more serious problems. One has to clarify just what China's problems are. I believe there are two. The first is that when we tried to introduce the market mechanism, the ownership system had not been reformed as it should have been. As the main ingredient in the national economy, the ownership system's ills had not been cured at their source. Therefore, we introduced the market mechanism under circumstances in which the ownership had not been very well reformed, when property rights were ill-defined, pricing concepts were lacking, and the legal system was incompletely developed. This produced "unprincipled competition" or "competition lacking rules" on a nationwide scale. We led a highly administratively controlled uncompetitive society in the direction of being a not completely competitive society lacking principles for competition.

Wen: Right.

Yan: So, I feel that **the task now is to turn our society into a society having principles for competition, rather than to backtrack to a highly administratively controlled and rigid society without competition.**

Wen: Yes, yes, yes.

Yan: What we have today may be called competition without principles, or competition with few principles.

Wen: Or called competition lacking fair principles.

Yan: Competition that lacks fair principles is not entirely without principles.

Wen: I would like to digress here to the current "clean up of the economic environment, and restructuring of the economic order," and the "deepening of reform." I believe that **the greatest "order" and "environment" is the building of the legal system. Recently when celebrating the 70th anniversary of the "May Fourth Movement," I suggested that only Mr D, and Mr S are not enough, and that a third one has to be added, namely Mr L, by which I meant democracy, science, and law. Of greater importance is the need to build regulations, principles, and agreed-upon rules of the game. These are also necessary conditions for China's orientation to the world, and orientation toward opening to the outside world.** The most important reason for foreign lack of confidence is that China has no rules, or that China's rules can change at will.

Vigilance Against the Occurrence of Irrational Political Acts

Wen: I believe there is need for vigilance in the present fairly grim situation against the possibility of some completely irrational political acts occurring. Clearly, at the present time, such irrational political acts are playing a role, both brandishing a large club and finding fault completely irrationally. Such irrational political acts will lead to China's completely going in reverse. The 10 years of the Cultural Revolution had just such grievous lessons. China cannot go backward. I very much appreciate the historical reflections that all socialist countries must go through in carrying out reforms. This is the Soviet Union's inspiration for us, and it is also the most important reason why Soviet reforms caused reverberations most recently throughout the world. However, we have done far too little in the way of historical reflection, and far too little in telling the common people the truth about history. Gorbachev has re-evaluated the major events in history. He is very deft at political manipulation; nevertheless, in matters of reason and justice, he has shouted out one resounding slogan: "Tell the people the truth about history." Who can be against this? Nor can anyone oppose it. I feel that our leaders should be more courageous today in facing reforms, and this includes having courage about spurring political system reform. It also includes touching on mistakes in which they were personally involved about which they should be more courageous. I feel that the wonderful candor of Communists should include candor on this point.

Yan: In this way, all difficulties can be overcome. I would like to talk about what science is. Science does not just mean mathematics, physics, and such fields of learning. When we talk about science, we mean a kind of spirit, first of all, namely whether it is possible to find solutions when faced with difficulties. Why is it that we feel no solution can be found? I believe the basic reason is political; it is lack of a political environment that can make the scientific spirit shine, and that guarantees free exploration and free discussion. Even though freedom of expression today is much greater than 10 years ago, when important matters are touched upon, people often adopt an evasive attitude, and it is impossible to continue to carry on a fruitful discussion. **The way out for economic reform is not to return to the undiversified planned**

economic system, but rather is to more effectively introduce the market mechanism into China's economy. Therefore, the main problem in economic reform is reform of the system of ownership. How to carry out ownership system reform so that after reform the ownership system will be closely combined with a market economy will require full use of the scientific spirit in undertaking exploration and study. Until such time as the ownership system has been effectively reformed, the currently advocated "optimized groups" within enterprises will create all kinds of havoc.

Wen: Right. When people are appointed by favoritism, they can get promoted, but the more they do the bigger mess they make.

Yan: The root of the matter still lies in reform of the ownership system. Why is it that the ownership issue is not explored very well? It is because, on fundamental issues, we are hobbled by various viewpoints, and we lack a political guarantee of free discussion.

Wen: Right.

All Points Reform and a Decision Making Mechanism

Wen: When I was in the United States, I made a speech at the Berkeley campus of the University of California titled, "Comparative Study of Chinese and Soviet Reform" inasmuch as I had been to the USSR and to Hungary. At Columbia University, I also made a speech titled, "On the Status of China's Reform." Some people asked me, "What do you think the next move will be in China's reform? Will there be a next move?" The situation at that time was not as serious as now, and my personal view at that time was very clear. I replied that **China finally has to realize that China needs all kinds of modernization, including political modernization, administrative modernization, population modernization, and modernization of its outlook. This is an increasingly evident and easy to see rationale that will inevitably lead to China to the need for complete reform, including political reform. Political reform cannot be simply much sound and fury with nothing coming of it.** In making a move, one has to take into account how much society can bear, and this ability to bear cannot be too brittle. When I read your "Ten Year History of the Cultural Revolution," I thought that though it was tentative, it was extremely necessary to collate historical data about the Cultural Revolution for the first time. The result of Party rectification will be a complete repudiation of the "Great Cultural Revolution," and unless study of the Cultural Revolution is permitted, how can it be repudiated. It is necessary to inform people of the facts, first of all. Reportedly, recently a change has taken place in the form of extreme sensitivity about some on-the-spot literature. How absurd this is! Have not Party documents repeatedly declared the need to thoroughly repudiate the "Cultural Revolution?"

Yan: This is in marked contrast to the current way of doing things in the USSR; the whole world can see this.

Wen: So in the United States, there has appeared a "rivalry about reform between young Gorbachev and Old Deng, with young Gorbachev greatly surpassing old Deng," it is said. Is it possible not to get some inspiration from reforms in the Soviet Union? I feel that in looking back on historical issues, there is no need at all to have such a fragile mentality.

Yan: Therefore, one can stay that there is still the political system issue, and the decision making mechanism issue.

Wen: Yes. Should we not absorb some realistic lessons from this form and from this history? I feel that to reflect on history is not to find fault with anyone; individual responsibility is limited. I very much appreciate the idea that "repentance by all the people is required." When I was abroad, some people asked, "Do you mean to say that the gang of four were entirely to blame for the Great Cultural Revolution?" I felt that the "gang of four" had been born out of the "cultural soil" of China, and that unless this "cultural soil" is shoveled out, it will give rise to new irrational political acts, including its mechanism. This is a danger that China's reform faces.

Need To Establish the Constitution as the Supreme Authority

Yan: Current reform mostly seeks to find means of solution. These means must be broadly acceptable. I feel that no such means have been presented.

Wen: Right. We have to realize finally that such means increase the status of the law, further strengthen the legal system, and enhance the authority of the law. Recently when I rode in a taxi in Shanghai, the taxi driver overcharged me, and was rude and unreasonable. He said, "Whose taxi do you think this is? It belongs to the city."

Yan: This is what is meant by no principles for fair competition.

Wen: I said, "Fine. That's very simple. I'll get the mayor." I wrote a letter to Major Zhu Rongji [2612 3310 1015]. Mayor Zhu was incensed. He instructed the CPPCC taxi fleet to shut down and restructure, and he fined it 1,500 yuan. On the following day, the effect was very good. I took a taxi operated by an individual household. The driver knew that I was the person who had written the mayor, so he did not want to accept the full fare. I told him, "When you do this, you're not abiding by principles either." Nevertheless, on a recent trip to Shanghai, I was overcharged again. So, there is no use in just trusting that all will be well; you have to rely on the law. Let me tell you reporters about a Hong Kong case in which the law was used to control taxis. A taxi driver carried a passenger from Kaitek Airport to a hotel, a ride costing HK$50.00. But the driver took advantage of the passenger, who had come

from the mainland, charging him HK$200.00. The passenger told a relative about it, and the relative filed a complaint. The result was that the driver was found guilty of "swindling," and sentenced to 1 ½ years in jail.

Yan: Our newspaper propaganda "calls for this," or "hopes for that," with no concept of the legal system. This will not do. Violations of the law should be legally punished without advising people that they should "do this," or hoping that they will do something.

I believe that the main reason China lacks a concept of the law is that the constitution carries no authority. I regard political reform and economic reform as being equally important, and the primary issue in future political reform in China is revision of the constitution during the 1990's. China's supreme law should be the constitution, followed by various laws, ordinances, administrative regulations, and local regulations, including principles for fair economic competition.

Currently, the provisions of the constitution and actual political matters are two different things. The constitution provides that the "National People's Congress" is the supreme organ of authority, when everyone knows, in fact, that it is not the supreme organ of authority. When the constitution is like this, failure to abide by traffic regulations, or taxi drivers overcharging are very small matters by comparison. When the supreme authority of the constitution is ignored, this can lead to tragedies like what happened to Liu Shaoqi during the "Cultural Revolution." Therefore, **China's first rule should be to establish the constitution, and no other new authority, as the supreme authority**.

Civil Rights Should Include Property Rights

Yan: The present constitution does not explicitly provide for the protection of private property rights. During reform, people have complained that many rights are frequently violated, including the levying of imposts on state-owned enterprises and private enterprises, as well as all sorts of minor taxes and fines in violation of the law. This makes us wonder what civil rights are? Apart from provisions regarding ordinary civil rights, such as personal freedom, freedom of speech, and the right to vote (and naturally, we have not done enough in this regard), the constitution should also provide explicitly that property rights are a civil right.

Wen: Right. Right.

Yan: The revision to the constitution passed by the 7th NPC provides that the state is to protect legal rights in the privately-owned economy. The 1982 constitution also contains a provision in this regard, that recognizes that citizens have the right to own private property. It also explicitly provides that the state is to protect citizens' right of ownership of legal property and the right to inherit private property. I believe that for "private enterprises," of greatest importance is guarantees of their "property rights," and the same is true for state-owned enterprises. No organization or individual may use any methods to seize or damage state and collective property.

Wen: For example, private use of government stationery is a common practice in China. In the United States, however, relevant regulations are printed on every government envelope as follows: "Official Business. Penalty for Private Use, $300." I very much approve of your views. It is a grim fact that losses are still expanding rapidly. But what is to be done about losses in medium size and small enterprises. The state wants to take them over. The two largest customers in China are private entrepreneurs, and foreign investors. Will foreign investors be interested in buying them? Will private individuals be interested in buying them? Why not? Because property rights cannot be guaranteed. I understand there was a man named Shen Hantong [3088 3352 6639] in Yuzhao, Zhejiang Province who raised lynx. He raised them very well, and he taught more than 2,000 individual households throughout the country how to do it, all of whom became rich. The director of a water plant tried to extort money from him, but he refused, so he cut off his running water and disconnected his pipes. As a result, all the lynx died, and he has no will to raise any more. This caused extreme damage to productivity.

Yan: Right. Property rights should be protected by the constitution and laws. This issue is becoming increasingly apparent in the course of reform. Not only should laws protect private property, but seizure of public property should not be permitted either. The present practice of converting public property to private use, as well as corruption, including "official racketeering," is related to this. I feel that the concept of "property rights" is extraordinarily important, and the constitution should declare "property rights" to be a civil right. Such an article should be written into the constitution. I feel that our present constitution has a large problem in rights being of two kinds. One kind is the ordinary rights and political rights of citizens, including the right to vote. The other kind is social, economic, and cultural rights. This kind is, in fact, a government "requirement." For example, we desire general secondary education, but secondary education cannot be extended to all. In many places, middle and primary school buildings are delapidated, and there is a shortage of funds for education. Unless this category of rights are materially guaranteed, they cannot be realized, yet our constitution contains very many such "articles of a requirement nature." Such a constitution cannot be really authoritative. Every sentence of the constitution should be authoritative and inviolate, and no laws or regulations should be in conflict with the constitution.

Property rights are a civil right, yet our constitution does not acknowledge this civil right. On the other hand, it includes large numbers of citizens social, economic, and cultural rights, and it includes requirements, hopes, and duties. Such a constitution loses authority; therefore, I feel that we will face the issue of revising the constitution during the 1990's.

In addition, the constitution contains numerous economic policies, foreign policies, and science policies. A constitution should not contain provisions of a policy nature. The present constitution also contains words such as "love the people." Just what is "not loving the people?" And how is "not loving the people" to be punished?

Wen: It is abstract.

Yan: Such a constitution is hard to deal with and hard to implement realistically. In a constitution such as ours, the most basic provisions lack authoritativeness. **In a national reform of major importance, one statement from this leader, and another statement from that leader, and countless, temporary, and even contradictory directions substitute for our constitution and laws. So, the chaos that has occurred in reform is inevitable. Therefore, the constitution must be made the supreme authority, and reform can only be founded on law.**

Wen: Correct. And reform can only be founded on law, and only then can the fruits of reform be consolidated. Recently there was a very great danger that the fruits of reform were facing forfeit, and facing the prospect that restoration forces might stage a comeback. It seemed that "all that had been was good." Difficulties in readjustment are necessary; however, the staging of a comeback on the scale of the entire conceptual system would be extraordinarily tragic. Additionally, I also felt that if 10 years ago a very resounding, and very good slogan was raised: "Let some peasants get rich first." Later on this expanded into "Let some people get rich first." Now, 10 years later, if I were permitted to suggest a slogan, I would suggest, "The deepening of reform should allow more people to get rich under fair rules." How can the system provide guarantees? Just as you just said, by founding reform on a legal system. Today, however, people who have become rich in China have a general feeling of insecurity. This is a legal guarantees issue. Foreign investment enterprises in China likewise feel this same problem. When this occurs, people may lose their willingness to forge ahead. It is very important that a country encourage this willingness to forge ahead. Why is it that people want to leave now? This is related to having no real legal guarantees.

Reform Brings "Collapse of the Purely Planned Economy"

Yan: I thought of a concept that can capsulize the present reform situation, namely the collapse of the purely planned economy. If I were to write a book describing the state of China's economy, I would use this for a title. This concept could be used to capsulize everything including official racketeering, private racketeering, unprincipled competition, and unfair distribution. Nor can this point be now attributed to the single element of a purely planned economy. **The key issue in reform today, aside from reform of the system of ownership, is the need to base the economy on the principle of fair competition, and particularly to make clear that "property rights" are a civil right, and to guarantee that neither public property nor private property may be seized.** If public property becomes private property, official racketeering may not be used to change it. Therefore, I say that it is not entirely a bad thing for China to be in a situation of "collapse of the purely planned economy." Writers of literature and reportorial writers can write a book about today's situation, and they can write a book about unprincipled competition in the economy. In another 3 to 5 years, this will all disappear; it cannot continue to endure for long.

Wen: In the process of Europe's modernization, the "inviolability of private property" has been a standard.

Yan: As a social form, socialism is by no means the "purest of the pure." It has a "public ownership system," while having "private property" that cannot be seized arbitrarily. The lack of legal guarantees for property relationships is extremely serious in current reform. It means that many individual households, and private enterprises will be unwilling to further accumulate wealth after a certain period of time, or that under the "system of public ownership," they will "undermine socialism" to seize and damage public property.

Wen: The more taken, the more seized.

Yan: China needs a "property law" with clear-cut provisions legally guaranteeing property, violators being punished according to law, violations to include illegal collection of taxes. This law should be extraordinarily strict, both the citizenry and public officials abiding by it. Lack of principles is the cause of turmoil, so the government should have principles first.

No Following of the Same Old Road of Unprogrammed Power Changes

Correspondent: The priority problem of the moment is to find ways, particularly ways to get started to do specific things.

Yan: We believe that China faces a large problem, namely whether it can avoid following the same old disastrous road of unprogrammed power changes that happened in the case of Khrushchev and Liu Shaoqi. CPC leaders are established by a Party congress, and the Party's supreme leaders are jointly responsible to the whole Party. The collective leadership system is a system of joint responsibility, rather than a "Cultural Revolution" style system of two lines fighting with each other. China can never again permit the use of unprogrammed methods like those of the "Cultural Revolution" to effect a change in power. Many people already feel there are such symptoms now. People's belief that China is now in danger is related to this perception. As a member of the people, I feel that we should express forthrightly such worries about China's future. No leader is without faults, and all can make errors. So long as errors are confronted, and a decision made to

correct errors, I think that China will be able to do all right. Some people construed what was clearly "The Dismissal of Hai Rui" of some years ago as applying to Wu Han, and then to Peng Zhen, and then to Liu Shaoqi, thereby setting off the "Great Cultural Revolution." This year what is clearly the small matter of "River Elegy," some people want to enlarge upon, ultimately arousing such a large disturbance. Everyone who loves our motherland, and everyone with a sense of responsibility for China's future should have full confidence in China's future. We believe the the CPC and the Chinese government are capable of solving China's problems, and that they will not permit some people to resort to various political actions (unspoken), irresponsibly and arbitrarily, causing political upheaval in China. In the face of difficulties, setbacks, or crises, one must have the courage to confront difficulties and errors, and not turn difficulties, or certain mistakes into a pretext for a power struggle. Inasmuch as the Chinese political system has not yet eradicated the elements that caused the "Cultural Revolution" or power struggles, unless care is taken, it is possible to follow the same old disastrous road of the "Cultural Revolution."

Wen: I also feel that when facing a serious situation, political tolerance is necessary.. This is not the time for mutual recriminations and mutual fault finding.

Yan: I feel that there is this kind of "crisis" now. **Some people who have always been opposed to reform see that things are getting worse in China, and they see China's difficulties as an opportunity for seizing power. They are prepared to "clean up the remnants" with the result that a period of enduring stagnation or regression will occur in China.** It is necessary to be vigilant against such persons. Such people see China's sufferings as their own hope.

Wen: Right. When China's reforms are facing a predicament, and bogged down in a quagmire, it is necessary to issue a cry of warning. China's reforms have been acknowledged to be great achievements the world over; reform has meant tremendous progress for China.

Yan: Despite so much tumult, the Chinese people support the Party and the government in their further promotion of reform.

Wen: The people of the whole country should be more allowed to remember which people exerted efforts to promote reform in China.

Yan: As well as which ones exerted no efforts at all, while waiting for reform to fail.

Wen: They want to revenge themselves.

Yan: Such people must be guarded against. They will used China's turmoil to halt reforms. New and public opinion circles should speak up forthrightly, and talk about the main issues.

Wen: One should be sure to study a frame of mind existing in traditional Chinese culture, namely that historically it has been the critics who sat gesticulating on the sidelines who "did in" the men of action who made mistakes. If you do ten things and do one of them wrong, they will repudiate you entirely for this one thing. It was those who never made any contribution, and who did not move ahead who were always the rational faction. This is something that reform has to particularly pay attention to.

Yan: I very much agree with what you say, and my worries about the reform uproar are related to this. China cannot allow a Brezhnev style long-term stagnation to occur.

Wen: Exactly! Exactly! For such a period of stagnation to occur would be even more serious than the failure of reforms.

Yan: "Stagnation would be more serious than failure." This title is very good. **If 20 years of Brezhnev-like stagnation occurred, China's modernization would be set back 50 years or even longer.**

Wen: Today, **willingness to sacrifice and willingness to pay a price should be particularly encouraged. If everyone tightens his or her belt, the situation will not be that serious.** This is just the time to promote reform of the ownership system. The number of large and medium size enterprises incurring losses has increased, setting the stage for takeovers. A precondition is further clarification of property rights. This is the "property law" that you were just talking about for further protection of private enterprise, protection of entrepreneurs, and further increase in the status of entrepreneurs. I recently had the pleasure of urging the founding of the "Chinese Private Enterprise Association." This association should have its own political spokesman making laws in the NPC. This is a process of evolution for all society.

Correspondent: Thank you both. Mr Yan, I heard you will soon be going abroad?

Yan: I will be going to Hawaii to take part in the "International Conference on Democracy and Social Justice." These are two basic issues that China also faces.

Wen: I am going to Japan next month to take part in the "East Asia Overall International Conference."

Yan: When?

Wen: The 16th through the 28th.

Correspondent: The international academic stage is also playing an increasing role in China's reform nowadays.

Wen: The leaders find it easier to listen to views "intended for export that have been shifted to the internal market."

NATIONAL AFFAIRS, POLICY

Article on Checking Inflation

HK1801040389 Shanghai SHIJIE JINGJI DAOBAO in Chinese 2 Jan 89 p 11

[Article by Ding Ningning 0002 1337 1337: "Some Thoughts on Inflation"]

[Text] **Is it possible to prevent inflation? What role can bank finance play? Is it possible to harness inflation? What is the price to be paid for enforcing an austerity policy?**

It now seems of no significance to continue arguing the question "whether inflation exists in our country or not" because price hikes have mercilessly put the "theory" denying the existence of inflation in our country into the trash can. As a result, people have begun to argue the question "whether inflation can be prevented or not." In order to avoid meaningless and unnecessary argument, I would like to point out: First, the economic development of various countries in the world in the post-war period has proved that vicious inflation can be prevented; second, those countries which have failed to check vicious inflation have failed to rapidly carry out their economic development; third, vicious inflation is usually caused by incorrect macroeconomic policies formulated by government, and often results in a political crisis. Although economic circles in various countries in the world tend to view vicious inflation in different ways, they all maintain that when the annual rate of price increases reaches a two-digit figure, the government concerned has to deal with the problem in a serious manner.

Just as its name implies, inflation means the excessive issuance of currency. Banks are, of course, unshirkably responsible for the excessive issuance of currency. However, as far as the realities of our country are concerned, I would like to say a few words in defense of our banks. It is known to all that in order to make the banking system capable of defending the currency, it is necessary to make the central bank independent of the administrative departments of the government. However, in our country, the People's Bank of China belongs to the State Council. Therefore, our banks cannot formulate their plans regarding credit and loans solely for the purpose of defending the currency because they have to subject their plans to the macroeconomic goals of our government. In consequence, once something goes wrong with the macroeconomic policies formulated by our government, the expansion of credit will inevitably become a "cheap" method of compensating for the losses caused by the macroeconomic policies of our government. As a result, the issuance of currency will in turn get out of hand. Our government will not intervene and demand that the banks tighten their control over credit and loans until rocketing prices pose a threat to our country's political stability. Nevertheless, once control over bank credit and loans is tightened, all types of contradictions will concentrate on the banks. Local governments, departments concerned, enterprises, and theoreticians will inevitably accuse the banks of "practising rigid uniformity." Eventually, the banks will have to yield to the pressure from all sides and relax their control over money supply once again.

Recently, in Beijing, I have heard much loud clamor for higher interest rates. It is necessary to raise interest rates in order to maintain the stability of bank deposits. Nevertheless, we still need to carry out more study on whether interest rates should exceed the rate of price hikes. Due to accumulated inflation, price hikes can reach very high levels during particular periods. However, it is necessary for us to maintain the relative stability of interest rates, which means keeping the fluctuation of interest rates within certain limits. When interest rates exceed the average profit rate of the capital of our domestic enterprises, most investment activity will automatically cease. When this happens, how can the money supply be increased? Theoretically speaking, properly raising interest rates and enforcing some other relevant measures can hold back enterprises with low efficiency from borrowing from banks so as to guarantee the sufficient supply of funds to enterprises with high efficiency. Since our country's pricing system has yet to be rationalized and our country's energy industry, communications industry, raw and processed materials industry, and some other industries are still rather backward, the only option we have at present is to "let the government issue orders and the banks provide money," which means that banks will first and foremost provide loans to those industries which are seriously short of funds and allow those units which have difficulties to repay their bank loans at state-finance-subsidized interest rates. In order to effectively enforce this measure, the government should make correct judgments, the administrative departments should improve their work efficiency, and, more importantly, the various banks must "sever their links" with state finance. Otherwise, state finance will shift its burden, resulting from the practice of allowing some units to repay bank loans at state-finance-subsidized interest rates, onto the banks. As a result, the expansion of credit and the issuance of currency will again become uncontrollable.

Recently, various domestic newspapers and publications have published a number of emergency countermeasures aimed at harnessing inflation. These emergency countermeasures include "freezing prices," "reselling rice," "value-retaining deposits," "reissuing coupons," and so on. Here, I would like to ask this question: Is it possible to harness inflation? In my view, when inflation has become an objective fact in our society, it is impossible for us to harness it.. The currency already issued cannot be recovered without paying a price. The currency already issued can only be gradually absorbed through price hikes. No government in the world can freeze prices completely. Other types of administrative measures in this connection can generally be divided into

two categories: One is trying to maintain market order and the operation of production at a reasonable level under the conditions of inflation; the other is trying to guarantee a reasonable living standard for the low-pay stratum of our country. No government in the world is capable of accomplishing any other tasks beyond the scope of these two basic tasks.

A lot of comrades with good intentions hope to find measures capable of reducing the price paid for tightening control over bank credit and loans. The question is: Is it possible not to pay any price for tightening control over bank credit and loans? Under the conditions of the present inflation, is it possible to find a way out without tightening control over bank credit and loans? In my view, the soaring inflation and a lack of determination to tighten control over bank credit and loans on our part will, under the existing economic structure of our country, result in a price-subsidy-taxation vicious cycle which will eventually put our country's economic life completely out of control. We have to pay a price for tightening control over bank credit and loans. It is all the more necessary for us to make it crystal clear to our cadres and to the broad masses of our people that if we do not tighten control over bank credit and loans, but let soaring inflation continue unchecked, we will have to pay a much higher price in the future when the entire situation of our country really gets out of hand. The historical experiences of various countries in the world attest that in a crisis situation, the only way out is by political measures rather than economic ones. Therefore, in a crisis situation, what our government should do first and foremost is try to restore the confidence of the broad masses of our cadres and people in our central people's government. If our government fails to achieve this, the existing situation of our country will only continue unchecked, though the entire economy of our country will not collapse at once. China has a big population, the majority of which are peasants whose dependence on the market is limited and whose capacity to withstand the strains of inflation is strong. Last year, all the big cities in China saw panic purchasing. However, the Chinese peasants did not participate in the panic purchasing. In the past, the Chinese peasants once supported the 8-year war of resistance against Japan and the 3-year war of liberation under extremely difficult conditions. In a short period of only 3 years, the Chinese peasants miraculously succeeded in extracting themselves from the disaster of 1960. Later, the Chinese peasants again withstood the decade-long domestic turmoil caused by the Cultural Revolution. So, in the present situation of inflation, it is still possible for the Chinese peasants to withstand the strains of inflation for another 7 to 8 years. However, if we let the present situation continue unchecked, we will once again miss an opportunity provided for us by history in the course of our advance.

Avoiding Stagflation in 1989

HK1801060989 Beijing JINGJI RIBAO in Chinese 4 Jan 89 p 2

[Article by Yan Kalin 7051 0595 2651: "Is Stagflation Avoidable in 1989?"]

[Text] During the year that has just ended, despite the appearance of double-digit inflation, we still had reason to feel gratified: The gross national product showed an estimated growth rate of 12 percent, and the national income an increase of 10 percent. Such rates of growth have rarely been seen in the various countries of the world.

Yet will this thriving situation disappear in 1989? And will inflation lapse into stagflation? This has a bearing on our national economy as a whole and on the national economy's direction, therefore, it is a cause for great concern.

At present, some economists in Beijing have taken note of this problem. Professor Li Yining has said: Given excessive tightening and an uncontrollable trend towards rising prices, economic stagflation is likely to appear.

The opinion of macroeconomist Dai Yuanchen is that our country's inflation rate has ranged between 10 and 20 percent. The appearance of stagflation in controlling inflation is inevitable. Therefore, we must be ideologically prepared not only for a period of economic decline but also for a period of stagflation. Seasoned economist Dong Fureng contended that as far as the current trend is concerned, the possibility of stagflation is not great. In light of past experience, even if it should appear, we know that stagflation will not persist.

But there are also scholars who think otherwise. Some even consider these judgments to be too pessimistic, or too hasty. But no matter what, the possibility of stagflation does, after all, exist. This calls for attention.

Stagflation is more unmanageable than inflation. It is often an economic state in which a monetary squeeze forces economic stagnation, with a rise in prices that continues. Internationally speaking, almost all developed countries have come across the knotty problem of stagflation at least once. The most serious example took place between 1973 and 1975, when tightened credit forced a sharp drop of 15 percent in France's industrial production, a decline of 10 percent in West Germany, and a decline of 19 percent in Italy. But their inflation rates were not brought under control. Commodity price indexes went up 11 percent, 6 percent, and 17 percent, respectively.

International experience shows that no monetary policy or financial policy can cope very effectively with stagflation. The U.S. administration adopted the tough measure of an overall freeze on wages, commodity prices, and rents to deal with this problem, but it had little effect.

It can be imagined that once stagflation appears in our country, it will also bring about a situation of depression. A continuous rise in commodity prices will make urban and rural residents and enterprises feel the strain of the

burden. Any fluctuation in industrial production, or even a hovering at the same level, would also lead to reduced economic results, reduced financial income, and more serious difficulties.

Subjectively speaking, we of course hate being mired in stagflation. But such a possibility really does exist in real life.

In regard to commodity prices, the extra amount of money printed by the bank in the past 2 or 3 years, and especially in 1988, has not come close to being absorbed by the market. A rough estimate now shows that the extra amount of money may not even be absorbed by the year 1990, let alone 1989.

In the production field, too much of a credit squeeze would bring multiple difficulties for many areas and enterprises.

A source has said that due to an acute shortage of funds and an increasingly serious shortage of energy and raw material supplies, some industrial enterprises in Shenyang City can now operate only 2 or 3 days a week. It is estimated that one-seventh of the large- and medium-sized enterprises in the city cannot fulfill the original targets of their contracts. The Shanghai Municipal Government recently announced that except for those enterprises that must have guaranteed continuity of production, enterprises under the municipality must alternate between 5 days of operation and 2 days of suspension. The enterprises in the suburban counties must alternate between 4 days of operation and 3 days of suspension. In Jiangsu Province quite a large number of enterprises are also in a plight of reduced production, suspended production, or partially suspended production. The responsible comrades of the planning departments of Beijing, Tianjin, Shanghai, Liaoning, and other provinces and cities have said that in light of current conditions, there will soon be a slide, possibly even a big slide, in industrial production. These conditions confront us right now and are of a local nature. But if they are allowed to develop, the possibility of stagflation will become a reality.

The control of inflation is very likely to cause stagflation, but this is not unavoidable.

However, if we were to give up on trying to improve the environment, we would naturally avoid the question of stagflation. Actually, many areas and enterprises have now shown signs of "pain" from a credit squeeze. The call for relaxed credit controls has become increasingly loud.

In 1986 it was precisely due to this call and slump in production that the relevant authorities relaxed credit controls. The pace of production was guaranteed thereafter. But inflation had become increasingly serious, causing the inflation rate to rise from the one-digit to the double-digit level in 1988.

Obviously, if we should today drop the policy of tightened credit halfway, inflation would threaten to further accelerate on a double-digit basis. Therefore, in 1989, we are facing the dual task, or situation of, not only controlling inflation but also avoiding stagflation. The only way out can perhaps be found in readjustment.

First, we should readjust the move to tighten credit. More and more conditions show that the current move to tighten credit is really a bit too hasty. Like the development of production, the control of inflation cannot be brought about with instant success. An excessive tightening is likely to cause a reduction in demand simultaneously with a reduction in supply, thus making it difficult to change the situation of overall social demand exceeding overall supply. Therefore, any future tightening of credit should be within the limits of not causing a reduction in effective supplies and economic stagnation. Meanwhile, preparations should be made to gradually eliminate inflation not in a short period of time but in a matter of 2 or 3 years.

Second, we must readjust the economic mix. On the one hand, we must improve and increase effective supplies. In regard to agriculture, energy, the raw materials industries, and the production of basic industrial goods for everyday use, light industrial and textile products suited for the market, and high-quality and brand-name durables, we should not hereafter reduce the pace and should instead stimulate development. On the other hand, we must resort to effective means, such as controlling money lending and the supply of electricity, and resolutely reduce the expansion of the general processing industries. We must urge those enterprises that involve high consumption, low efficiency, and products of poor quality to stop production, or effect a switch in production. We must also reduce the inappropriate pace of growth of town and township enterprises. Only through a readjustment that combines preservation with removal and protection with repression and combining reduced demand with a structural switchover can we enable limited resources to be deployed, with the selection of the best, to add to effective supplies. Only by doing these things can we reduce the pace of economic growth to an appropriate level and bring the economic mix up again to a rational level, thus enabling the entire national economy to get on the path of development with steady and fruitful results.

In addition, close attention must still be paid to reforms in such fields as interest rates, housing, property rights, and so forth. These reforms carry great significance in controlling inflation. They similarly play a positive role in avoiding stagflation.

Undoubtedly, as long as we direct efforts toward readjustment, stagflation can be avoided. Readjustment is a guarantee for the steady development of the national economy in 1989. It is also the key to control and consolidation. But how should a department, area, or enterprise play its proper role in readjustment, and how

should it fit into the new situation of readjustment? It must be said that now is the time to pay close attention to the consideration of this problem.

Contract System Deemed Most Suitable at Present Time

40060260 Shanghai SHIJIE JINGJI DAOBAO in Chinese 5 Dec 88 p 10

[Article by Chou Hongming 0719 7703 6900: "Summary of Minutes of Seminar for the Comparative Study of the Contract System and the Shareholding System"]

[Text]**Do not use the shareholding system, which is still in the pilot project stage, to repudiate the contract system, which has proven effective in practice.**

Practice has shown that the contract system has evoked enthusiasm among staff members and workers in enterprises, and that it is able both to increase government revenues and increase the supply of products to society. This is of crucial importance both for current efforts to cure inflation and for steady development of the economy. Furthermore, it appears that conditions are not yet ready for the practice of a shareholding system in China. The primary rationale for a shareholding system is said to be a clarification of property rights, but experience in a Shenzhen pilot project shows very great difficulties with the clarification of property rights in shareholding enterprises. Thus, in view of the national circumstances, perfection of the contract system will be able to overcome problems that arise in the contract system.

Throughout 1988, the contract system has been severely pounded by rises in prices of raw and processed materials, increases in the price of electric power, and an increase in non-staple food subsidies. Some comrades who do theoretical work have proposed that price rises be employed to damage contracting, after which the shareholding system could be substituted for the contract system. Businesses fear the many policy changes; and personnel are on tenterhooks and at a loss for what to do. It was against this backdrop that the Capital Steel Research and Development Company convened a seminar for the comparative study of the contract system and the shareholding system in Beijing on 11 and 12 October 1988. Participants in the seminar included comrades concerned from the Capital Iron and Steel Works, the No 2 Automobile Plant, the First Machine Tools Plant, the Tourist Bus Company, Ltd., the Gear Plant, the Ministry of Railways Large Scale Job Contracting Unit, the Wuhan Boiler Plant, and the Lanzhou Oil Refinery and Chemical Plant, as well as the State Statistical Commission, the State System Reform Commission, and the Beijing Municipal Economics Commission. Participants from the theoretical field included Comrades Wu Shuqing [0702 2885 7230], Yang Peixin [2799 1014 2450], Liu Guangdi [0491 0342 4574], He Jianzhang [0419 1696 4545], Lu Baifu [7120 4102 3940], Jie Wenzuo [2054 2429 0146], Wang Jibo [3769 4949 0514], Wang Jincun [3769 6855 1317], and He Aitang [7815 1947 1016]. A report on the conference is provided below.

The Contact System Holds Powerful Vitality

The contract system was put into effect throughout the country during May 1987. Because of the two step change from the payment of profits to payment of taxes underway at that time, 90 percent of enterprises' profits were taken away, and they lost the ability to accumulate capital themselves, to transform their enterprises themselves, and to develop their enterprises themselves. This seriously dampened the enthusiasm of staff members and workers, with the result that enterprises' profits declined for 20 months in a row, and government financial revenues slipped. In order to correct this passive situation, the CPC Central Committee and the State Council made a firm decision to institute the contract system.

Because the contract system stirred the enthusiasm of staff members and workers in enterprises, taxes and profits realized from industrial enterprises included in the annual 1987 national budget increased 11.8 billion over the previous year in a 9.9 percent increase. Although 1988 should have been a year in which large returns from contracting were realized, rises in prices delivered a severe pounding to returns. The price of electricity rose .02 yuan per kilowatt-hour, occasioning a 3.6 billion yuan increase in expenditures from January through August; and the increase in subsidies for non-staple foods amounted to 1.44 billion yuan. Enterprise losses on loans, purchases of bonds and compulsory bond assessments, and interest amounted to 500 million yuan. In addition, there were payments for improvements to dwellings, retirement funds planning, increase in interest on loans, etc. The above items deprived enterprises of 9 billion yuan. Under severe pounding from price rises, contract enterprises, in general, did not lower base figures to be paid to the state, so in the 1988 budget for the period January through September, the output value of industrial enterprises increased 11.2 percent, sales income increased 28.8 percent, and interest and taxes increased 14.9 percent (a 17.9 percent increase for taxes, and a 13.6 percent increase for interest). The amount of interest and taxes paid to the state increased 9.6 percent. This was extraordinarily praiseworthy. Provinces and cities that had instituted the contract system rather early such as Jilin, Shandong, Henan, and Xinjiang saw a substantial increase in output value. Places that instituted the system fairly late, such as Shanghai, saw a 15 percent decline in output value at the beginning of the year, but by March, after instituting contracting, the decline slowed to 5 percent. Beijing instituted contracting throughout the city, and output value increased 12.23 percent; profits and taxes realized increased 15.2 percent; and profits and taxes paid to the state increased 9.72 percent from January through August 1988. This included eight machine industries

that had done a good job of contracting, whose output value increased 15.9 percent, profits and taxes realized increased 26.8 percent, and profits and taxes paid the state increased 21.5 percent.

The foregoing figures show that the contract system enables enterprises to digest price rises. Had this not been so, public revenues for 1988 would have faced an unimaginable situation. Therefore, everyone acknowledges that the contract system possesses powerful vitality.

The third plenum of the 13th CPC Central Committee produced plans for cleaning up the economic environment, restructuring the economic order, and generally deepening reform. Everyone agrees that the key to harnessing inflation lies in increasing the supply of goods. Practice has demonstrated that the contract system enables staff members and workers in enterprises to apply their enthusiasm to the full. It can produce an increase in public revenues, and it can increase total supply of goods in society. Both are of crucial importance to the current harnessing of inflation and steady future economic development. The communique of the third plenum of the 13th CPC Central Committee called for "earnest perfection of the contract system," and this is entirely correct. Everyone recommends that this important Central Committee policy be put into effect. Propaganda and the mass media should not use the shareholding system, which is still in the pilot project stage, to repudiate the contract system that has been demonstrated effective in practice. The third plenum of the 13th CPC Central Committee called for a general deepening of reform during 1988 and 1989, and no major mistakes are likely to occur in price reform. It remains to be seen whether perfection of the contract system and acceleration of enterprise reform will become the main focus in the general deepening of reform.

Realistic Analysis of the Shareholding System

Numerous comrades who attended the seminar are very familiar with the stock market of old China, and they have also personally studied western securities markets in recent years. They believe that the shareholding system should be analyzed in a realistic way. First of all, a distinction should be made between the shareholding system and the pooling of funds and partnerships. Both the pooling of funds and partnerships have existed since the end of the primitive society period, but the shareholding system is an outgrowth of the highly developed capitalist commodity economy. Capitalism has a history of more than 300 years, and the shareholding system came into being during the last half of the 19th century. A true shareholding system must meet the following four conditions:

Independently run enterprises, and a stable national tax system, taxes to be set by a legislature in which taxpayers are represented, government financial agencies being unable to increase enterprises' tax burdens at will. Thus, if an enterprise is run well, and shares produce plentiful dividends and extra dividends, people will buy shares. China's Ministry of Finance constantly levies new taxes, collects funds, and imposes bond assessments; thus, even if an enterprise is run well, there is no assurance that dividends and extra dividends will be disbursed.

Developed financial markets. In western countries, banks act as agents in the issuance and purchase of some shares. In addition there are securities exchanges that transfer and circulate shares so shares may be sold at any time. Moreover, securities market brokers must be highly skilled. China will not have such conditions in the near future.

In capitalist countries, where capital is dispersed, there is a market for share issues. A profiteering class that lives off of interest with no involvement in enterprise operations has come into existence. It is a large customer for securities. Then there is the middle class made up of employees, intellectuals, and skilled workers who make high wages, and who use their spare money to purchase shares in the hope of making a profit. For the next 10 years, at least, China will have to keep wages low for workers, staff members, and intellectuals whose incomes will be only enough to buy food and clothing. The little money they accumulate by economizing on food and clothing will go for the purchase of major items. Such temporarily idle funds are saved up bit by bit until sufficient, then it is withdrawn. It can only be attracted into savings accounts. As for the individual households that have suddenly become rich in recent years, they would rather go into business for themselves to earn bigger returns than can be obtained from dividends and extra dividends from shares. The peasants use their money for production and to build houses. Consequently, very little funds are available for the purchase of shares.

A stable currency is required. Share value is expressed in terms of currency. Whenever there is inflation or devaluation, the money invested in shares may also depreciate. During inflation in old China, share certificates and bonds became scrap paper. We are currently experiencing inflation, and people who buy shares are also afraid that they will lose value. It is for the above reasons that quite a few comrades believe that conditions in China today are not ready for institution of the shareholder system. Experience shows that the Chinese people are in the habit of putting their money into savings accounts, and the savings rate is steadily increasing. Consolidating savings and soaking up spare capital through increases in savings interest rates, and by increasing short-term assured value savings is more realistic. If the share system suddenly got started during a period of marked inflation, share certificates might very well become a new vehicle for official racketeering, private racketeering, and speculation.

Some comrades also feel that the shareholding system is not as good a mechanism as the contract system for stimulating enterprises to greater achievement, and for

intensifying staff member and worker interest in being masters in their own house. Though western stock markets are for investment, they are also for speculation. People hope that share certificates with a face value of 100 yuan will increase in value to 200 or 300 yuan. Rises and falls in the prices of shares are not entirely the result of how a business is run, but are also caused by interest rates, economic cycles, or even the political situation. Bad performance can become an element causing turmoil in banking and do damage to economic development. The main reason for advocating a shareholding system is the clarification of property rights. Experiences in the Shenzhen pilot project show many difficulties in clarifying property rights through the shareholding system. First of all whether state shares should revert to ownership of the central government or to provincial and municipal governments arouses endless controversy. Second, more controversy arises out of whether enterprise shares are tenable. Some people maintain that they represent an appreciation of state-owned assets, so the greater public interest cannot be reduced to a smaller public interest. Another problem that arises is who will represent them, if they revert to an enterprise. Third, staff members and workers have no money to buy staff member and worker shares, and to apportion shares to them is not right. If workers are to be given shares, should shares also be given to the peasants inasmuch as peasants have made a contribution to accumulations through the past low prices paid for their agricultural products. Thus, there are bound to be property disputes.

Everyone realizes that China's reforms must proceed from China's realities. In recent years, some people have suggested the application of Keynesianism, proclaiming the "doctrine of beneficial inflation," but facts have shown this to be a road that leads nowhere. Comrades from the business world attending the seminar presented a large amount of facts to show that once enterprises began contracting, the superiority of the public ownership system came fully to the fore, and that this system was able to create a labor productivity rate higher than capitalism. The profit rate on capital at Capital Iron and Steel is already more than 50 percent, a rarity in the world. We should reject the dogmatism of heedless application of western experiences and theories. We should investigate and study, and summarize experiences in an exploration of means for China's building of a socialist commodity economy.

Need for Diligent Perfection of the Contract System

The enterprise contracting system, like the rural contracting system, requires a process of perfecting and developing. Enterprises have been contracting for barely 1 year, and the system is now practiced in between 80 and 90 percent of all enterprises. It is not surprising that some problems should have occurred. However, now that quite a few influential persons in theoretical fields are propagandizing the shareholding system, they frequently point to these problems in the contract system as ills that the contract system is unable to overcome, and thus they repudiate it. They say that the contract system "is bound to give rise to short term behavior on the part of enterprises," "increase administrative interference," and "not be good for optimum grouping of resources in society," etc. During the seminar, leaders of enterprises practicing the contract system hurried to point out to people in theoretical fields that the above-mentioned problems do not necessarily have anything to do with the contract system. Quite the contrary, only by genuinely practicing and perfecting the contract system can these problems be avoided. In this regard, everyone proposed the following:

Need to state explicitly that contracting by large and medium-sized enterprises will remain unchanged for a long period of time. Further extensions of contract agreements will generally be until the year 2000. The Ministry of Finance has already notified No 2 Automobile Plant that when contracts expire, a change will be made to a 35 percent income tax level, that taxes and profits are to be kept separate, and that contracting is to be done following payment of taxes. No 2 Automobile Plant had hoped to renew contracting until the year 2000 at the previous terms, paying 9.9 billion yuan to the treasury, while simultaneously raising capital itself to build a new plant with an output of 300,000 sedans per year. Were contracting to be halted, at minimum, retained profits of 1 billion would be hurt, and this goal could not be reached. We suggest that the CPC Central Committee and the State Council resolutely prevent the Ministry of Finance from halting contracting, allowing the No 2 Automobile Plant to contract under the original terms until the year 2000.

The key to perfecting the contract system lies in reform of overall integration. By this has meant keeping the contract system as the core, but reforming, in an integrated way, the planning, investment, material supply, financial, and foreign trade systems, loosening one by one the cords that restrain enterprises from operating independently.

Why is it that state-owned large and medium size enterprises have not been enlivened in the same way as township enterprises? The main reason is that township enterprises have much more autonomy than state-owned enterprises, and they also enjoy various preferential benefits. Such policy tilts have produced a situation in which individual entities and collectives crowd against state-owned enterprises, and these problems cannot be solved by the efforts of large and medium sized state-owned enterprises themselves. The key to a solution lies in state agencies further removal of restraints on the authority of large and medium-sized enterprises. The current cleaning up of the economic environment is for the purpose of establishing a new order in the socialist commodity economy. Such a new order must be in which large and medium size state-owned enterprises are fully enlivened; there positively can be no backtracking to the old road of the product economy.

Therefore, investment as well as autonomy for engaging in foreign trade should be awarded to those enterprises in which returns have been rather good since the initiation of contracting, so that they will have the authority to invest in new construction and transformation projects so long as they file a report for the record with planning agencies. Planning agencies could provide consulting services and recommendations; however, each enterprise would have autonomy over investment. In addition, giving them autonomy to engage in foreign trade would enable them to enter directly into cooperation with foreign enterprises.

Perfection of the contract system through institution of a true contract system. In the seminar, numerous comrades pointed out that results of contracting in some enterprises today are less than ideal, largely because contracting methods are amiss. In very many enterprises, contracting periods are too short, contracting being done even as frequently as once each year. In some enterprises, there are too many contracting standards that throttle business. Some enterprises divide up excess contracting, which does little in the way of providing encouragement. Some lack equitable percentages for the distribution of retained profits; and in some, the total wages paid are not linked to actual profits earned, but rather to the amount of profits and taxes paid to the state. In these cases, enterprises' concern with paying more and distributing more puts pressure on funds required for technical transformation, etc. At the seminar, everyone analyzed the contract method used by Capital Iron and Steel Works, concluding that the reason that the Capital Iron and Steel Works had a self-stimulating, self-controlling, and self-regulating mechanism after instituting the contract system lay in the contracting system that Comrade Zhao Ziyang had approved for implementation, and which has the following features: First, the amount of profits contracted to be paid to higher authority increases each year at a fixed rate; second, base figures are fixed, all in excess of contracted amounts being retained by enterprises. Third, enterprise retained profits are distributed for use at 60:20:20 percent, and total wage payments are linked to profits earned and float at 0.8:1. Fourth, contracting is limited to 15 years, the longest time in the whole country as of now. Fifth the contractors are all staff members and workers in the implementation of an internal level-by-level contract system that extends down to individuals. Because of the above features of the Capital Iron and Steel Works contract system, not only does the enterprise have to bear responsibility for losses, but only when profits exceed the year-by-year incremental increases in amounts to be paid the state is a return received. When earnings are less than the incremental amount of increase in profits to be paid, the shortfall has to be made up out of enterprise funds. In reality, this already goes beyond the plants bearing full responsibility for profits and losses in a cost sense.

Everyone realizes that if the contracting method is right, and an internal mechanism has been formed, the power of the contract system can be further turned to advantage, and this inevitably produces higher returns.

Industry-wide contracting has to be changed to contracting with individual enterprises. Today, 880 percent of local enterprises contract; however, except for the Ministry of Railways, all central government industrial enterprises practice industry-wide contracting, none of them contracting with individual enterprises. Consequently, the trend toward decline in the profits of central government enterprises has yet to be reversed, the decline in profits having gone on for 35 consecutive months. Enterprises in industries in which industry-wide contracting is done have an extraordinarily strong desire to do contracting. Examples include the Yanshan Petrochemical Company in Beijing, and the Shanghai Jinshan Petrochemical Company, both of which want to contract.

It is suggested that the CPC Central Committee and the State Council instruct agencies that do industry-wide contracting to institute the enterprise contract system. Personnel and financial resources, production, supply and marketing, and internal and external trade authority that enterprises formerly turned over to the main company should be returned to the subordinate enterprises, and the main company should no longer function as a primary level juridical person. It should become an administrative bureau acting as a unit issuing contracts.

Development of enterprise groups, enterprises that have turned in a good performance in the contract system serving as the nucleus. The experiences of the Capital Iron and Steel Works and the No 2 Automobile Plant demonstrate that once large enterprises institute contracting, their economic strength grows increasingly. Not only do they have power to expand, but they also hold a very powerful attraction for enterprises that are not run well. This creates extraordinarily favorable conditions for an enterprise to achieve an optimum allocation of resources through takeovers, and by providing finance capital. As a result of Capital Iron and Steel Works' recent takeover of 33 enterprises, it has become a multifunctioning, externally oriented enterprise spanning 22 of the country's provinces and cities and engaged in operations in four different industries having to do with iron and steel, electronics, machinery, construction materials, tourism, and shipping. The main obstacle blocking optimum allocation of resources today is the local ownership system and the department ownership systems.

It is suggested that the CPC Central Committee and the State Council enact policies to support contracting enterprises in the breaking down of barriers between higher and lower echelons or between different departments or regions, and in demolishing the "three immutables" pattern for the vigorous development of ;large scale enterprise blocs that cut across regional and industry lines. This is extremely important for the acceleration of the country's modernization.

Importance of Contract System in Enterprise Management

40060238a Shanghai SHIJIE JINGJI DAOBAO in Chinese 19 Dec 88 p 15

[Article by Bo Cheng 0130 6134: "Contract System Has Become an Important System for Socialist Enterprise Management Acknowledges Yuan Baohua at Beijing National Seminar for Perfecting the Contract System"]

[Text] Problems in reform are, above all, problems in reforming enterprises, a large number of which are still mainly problems in perfecting the contract system. The contract system now faces a new situation in readjustment of the national economy in which enterprises will have to support economic readjustment and the building of a new order through improving the economic environment and rectifying the economic order. These are favorable ocnditions that are indispensable to the further deepening of enterprise reform.

Just what are the problems that should first be solved in reform? At the National Seminar for Perfecting the Contract System, which was jointly sponsored by the Chinese Enterprise Management Association, Qiushi Magazine Press, the Chinese People's University, the Capital Iron and Steel Corporation, and SHIJIE JINGJI DAOBAO, Yuan Baohua [5913 1405 5478] discussed this question. He maintained that problems in reform are, above all, problems in enterprise reform, a large number of which are still mainly problems in perfecting the contract system. During 1989, two matters must be taken in hand. One is separating of government administration from enterprise management, and the other is diligent perfection of the contract system. A continuing effort in perfecting and developing the contract system, strengthening the internal administration of enterprises, and optimizing the make up of labor is crucial to the deepening of enterprise reform, the elimination of price rises, increasing state revenues, and insuring market supply. Improving the economic environment and rectifying the economic order must be done from this foundation.

In talking about the development of the contract system, Yuan Baohua noted that after several years of effort, the contract system has earned unanimous acceptance and the endorsement of the central leadership. Today, more than 90 percent of industrial and commercial enterprises use contracting, and contracting periods have been universally changed to from 3 to 5 years. All contracts have begun to meet specifications set forth in "Contracting Regulations." The contract system has become an important system and method for socialist enterprise management, and might be said to be a fundamental system and method. At least, it is one fundamental system and one fundamental method. It solves the problem of how to give free rein to the enthusiasm of enterprises as well as staff members and workers, and it solves the problem of how benefits are shared by the state, the enterprise, and individuals. The contract system most effectively promotes technical progress, technical transformation, and the development of new products in enterprises, thereby increasing enterprises' vitality. It promotes the building of a self-restraining mechanism. The contract system has developed from contracting by entrepreneurs to contracting by all personnel for a further strengthening of the democratic management of enterprises. Institution of public bidding for contracts has introduced the competition mechanism into the contract system. For this reason, the contract system increasingly possesses exuberant vitality.

Naturally, some problems with the contract system are unavoidable. Yuan Baohua made several points in this regard. First, approximately 10 to 15 percent of enterprises are unable to fulfill their contract agreements for one reason or another. Second, public bidding for contracts must be promoted further. Third, problems with enterprises' responsibility for losses, and problems with the honoring of contracts by departments in charge have yet to be completely solved. Fourth, the self-restraint mechanism in industrial and commercial enterprises has not yet been completely established. Bonuses and goods are awarded right and left, prices are raised, or are increased in a disguised form, and extravagance and waste are fairly serious. Fifth, basic work is a weak link in enterprise management.

Yuan Baohua proposed several ideas to deal with these problems. He said that the contract system is now facing a new situation in readjustment of the national economy. Enterprises will have to support economic readjustment and the building of a new order through improving the economic environment and rectifing the economic order. These are favorable conditions indispensable to the further deepening of enterprise reform. He believes that in the building of a new order there is a new problem concerning the form and means of control. First, harnessing and restructuring opportunities must be used to strengthen new regulation and control means, and to build a regulation and control system. Enterprises should do all possible in this regard. Furthermore, they should use completely new methods. When results are slow in coming, some old methods may be properly and temporarily used; however, concrete analysis and study must be done and applied in a clearheaded fashion. Overforcing the matter should be avoided.

How can a pattern be established whereby the state regulates the market, and the market guides enterprise? Yuan Baohua believes that the method whereby markets will effect control is a problem that has yet to be completely solved. This is because there are still no such markets; additionally, numerous problems requiring solution still exist in how to regulate the market. In the triangular relationship that exists today among the state, the market, and enterprise, the relationship of the state to the market, and the market to enterprise is a dotted line. Only the relationship of the state to enterprise is a solid line. However, the true building of such a pattern

will require that the relationship between the state and the market, and between the market and enterprise be a solid line, with no line connecting the state and enterprise. Given the present state of affairs, genuine building of a socialist commodity market system is no easy matter; it will require efforts on the part of enterprises. Since more than 90 percent of all state-owned enterprises are under contract, the requisite conditions for building such a pattern are already in place. Once a market mechanism has been formed, this will simultaneously also promote the institution of macroeconomic control of the new order.

In speaking about how to get through current difficulties, Yuan Baohua emphasized that enterprises are responsible for shouldering these difficulties, and only enterprises can overcome these difficulties. In particular, large and medium-size enterprises should become the main force for this purpose. He believes that it is necessary to look inward, to tap the latent strength within enterprises, to increase ability to learn, and to increase economic returns in order to overcome difficulties. In fact, all of our enterprises possess a substantial latent strength; the key lies in how to mobilize and rely on the entire body of staff members and workers.

Now that reform has gone through 10 years of trials and tribulations. Yuan Baohua believes that this is the time to conscientiously summarize the lessons of the past 10 years of experience. Every enterprise should use a microeconomic summarization as a basis for bolstering theoretical study, then go on to making a macroeconomic summarization. This is the only way to help further develop and perfect the contract system. In addition, vigorous publicity should be given the successes and failures of the contract system. Newspapers, and literary and artistic circles should do all possible in this regard, so that from top to bottom throughout the nation, males and females, the old and the young, are able to understand reform, uphold reform, be concerned about reform, and support reform.

Hopes for Curbing Inflation Pinned on Enterprise Contract System

40060238 Shanghai SHIJIE JINGJI DAOBAO in Chinese 26 Dec 88 p 14

[Article: "Perfecting the Contract System To Invigorate Enterprises is a Strategic Choice For Curbing Inflation. Minutes of the National Seminar on Perfecting the Contract System"]

[Text] **In the course of improving the economic environment and rectifying the economic order, we must establish a new order of macroeconomic control. We must find means and methods for macroeconomic control under new circumstances, and we must prevent the restoration of the old system. This is an extraordinarily important point. Some departments attribute the evil consequences of macroeconomic policy failures to the excessive authority of enterprises, and want to take power away from them. This is bound to renew stifling control over enterprises that will make an increase in supply impossible, and will cause both a slide in government revenues and an intensification of inflation. Unless the central authorities act with all possible speed to put things right, the old system of highly centralized authority may be restored, and the results of 10 years of reform would be wiped out in a day.**

We should propose a strategy that relies on perfecting the contract system, and that enlivens large and medium-sized enterprises as a means of eradicating inflation and increasing effective supply. National financial revenues derive primarily from large and medium-sized enterprises. The enlivening of large and medium-sized enterprises makes possible an increase in effective supply, and an increase in financial revenues. The importance of this for the 1991 peak period for debt repayment, and for halting current inflationary conditions needs no elaboration; moreover, a rational industrial structure, plentiful commodities in markets, and an increasingly flourishing economy may come about.

A national discussion meeting on perfecting the contract system was convened at the Capital Iron and Steel Corporation from 6 through 8 December 1988. A report of the conference proceedings is provided below.

I. The Contract System Has Shown Powerful Vitality Despite the Rise in Prices and the Trend of Thinking Toward the Joint Stock System

Some comrades in theoretical circles have proposed that the shareholding system replace the contract system, and during the summer of 1988 some people publicly proposed the use of price rises to shatter the contract system as a way of opening the way for institution of the shareholding system. However, the contract system was not only not shattered, but fully demonstrated its vitality. Since May 1987 when the contract system was instituted nationwide, a turnaround has occurred in the 20 consecutive month decline in enterprises' profits. In 1987, financial revenues resulting from implementation of the contract system increased by more than 6 billion yuan. It is estimated that for the period January through October 1988, industrial output value increased 11.1 percent, and that there was a net increase of 18.5 billion yuan in profits and taxes for a 16.8 percent increase, taxes increasing 19.8 percent, and profits increasing 13.6 percent. Industrial enterprises realized both profits and taxes despite the taking away of 9 billion yuan as a result of the rise in prices paid for electric power and raw and processed materials, and for non-staple food subsidies. Therefore, the total amount of profits and taxes produced as a result of contracting between May through October 1987 was approximately upwards of 30 billion yuan. In Jilin Province, where the contract system performed well, comparison of the period January through October 1988 with the same period in 1987 showed a 16.2 percent increase in industrial output value for a 40.4 percent increase in profits and taxes, and a 16.3

percent rise in financial income. After eliminating factors that reduced profits by 1.512 billion yuan in 1988, output value increased 14.57 percent in Beijing for the period January through October for an 18.9 percent increase in profits and taxes, and a 22.6 percent increase in profits retained by enterprises. This included a 17.2 percent increase in the output value of eight machine building industries whose profits and taxes increased 21.7 percent. In 1986 Huangshi City went all out in promoting the contract system, realizing a 21 percent increase in profits during 1987, and a 7 percent increase in the amount of taxes and profits paid the state. Retention of profits by enterprises increased 27 percent. Between January and October 1988, profits increased 35 percent; profits and taxes paid the state increased 11 percent, and the amount of capital that enterprises raised themselves doubled. Although Capital Iron and Steel Corporation profits have increased by an average 20 percent for 9 years in a row, an additional 20 percent increase is predicted for 1988 over 1987. During the period of increased contracting from 1982 through 1987 when the Capital Iron and Steel Works was permitted to institute the payment of profits to higher authority, it has averaged a 29.8 percent rate of increase in the payment of various kinds of taxes. Two of 13 military ordnance enterprises belonging to the Beifang Industrial Corporation, which was taken over by the Capital Iron and Steel Corporation, had only miniscule profits before the takeover, and the other 11 all showed losses. During the first half of this year, losses amounted to 44.88 million yuan, and forecasts called for 59.65 million yuan in losses during the last half of the year. After the takeover, the Capital Iron and Steel Corporation did not send cadres to the companies or accord them special treatment, but by instituting the contract system used at Capital Iron and Steel, and allowing them to work matters out themselves, the situation began to change in the short space of just 4 months. By August, losses averaging 7.48 million yuan per month during the first half of the year fell to 2.23 million yuan per month, and in September and October, the companies began to show a profit. A comrade who attended the meeting said that the contract system is truly a talisman for tapping enterprises' potential and increasing returns; it is the most surefire choice for urban reform, and it is a hopeful road for China.

Some comrades who do theoretical work have deprecated the contract system in order to promote the shareholding system. Following discussion, everyone made clear that even in presently developed capitalist countries like the United States, fewer than one-fourth of enterprises have a shareholding system; an overwhelming majority are sole proprietorships or partnerships. Although the shareholding system has a positive function in raising capital and in joint ventures, the rise and fall of shares can also occasion economic shocks and speculation, creating "panic." Our enterprises can engage in fund raising and joint ventures, but this does not equate to having a shareholding system. Not a single large or medium-sized enterprise in China has yet had successful experiences with the shareholding system. The main foundation for the shareholding system is clear-cut property rights. Delegates from enterprises who attended the meeting reported that enterprise staff members and workers had not called for property rights. The main problem facing enterprises is not that ownership rights have not been spelled out, but that autonomy in operations has not been put into effect. Quite a few comrades engaged in theoretical work are worried about the consequences of spelling out property rights, lest the large public interest become small public interest, and the public interest becomes private interest.

II. A Strategy Must Be Adopted for Enlivening Large- and Medium-sized Enterprises, Increasing Effective Supply, and Eliminating Inflation

Two different policies exist in the present course of improving the economic environment and rectifying the economic order. The first is the policy of "stifling overcentralization," meaning a return to the Soviet model of centralized central government control, and the other is a policy of contracting and enlivening. Since its founding, New China has gone through four periods of inflation—one in 1950, one during the 1960's, one during 1980-1981, and one from 1983 to the present. During the first two times, primarily a policy of centralized central government control was adopted. During the 1960's, in particular, the main reliance was on centralization, retrenchment, and the discontinuation of projects. As a result, 20 million staff members and workers were sent down to the countryside, and 20 million people died in rural villages in the payment of a very heavy price. However, what played a genuinely positive role in the elimination of inflation was the adoption of a series of measures that freed the rural economy, including the creation of small accounting units, revival of private plots, and "contracting production to individual households" in some places. This aroused peasant enthusiasm, and increased supply. In 1981, a policy of mostly reform and enlivening was employed to bring inflation under control. Although an investment in capital construction amounting to approximately 20 million yuan was curtailed, mostly it was the contracting to individual households in rural areas, and the expansion of enterprise autonomy in urban areas that was relied on to arouse enthusiasm. The Capital Iron and Steel Works, and the No 2 Automobile Plant instituted contracting at this time. Thanks to the adoption of the enlivening policy, the flow of agricultural and sideline products into markets increased, the supply of manufactured consumer goods increased, and export trade rapidly increased. In 1982, a buyer's market appeared, and inflation was halted. Only a short period of time was required, and only a small price paid. Nor did side effects such as unemployment and hunger ensue.

As for the present economic readjustment, Comrade Ziyang said that in the course of improving the economic environment and rectifying the new economic order, we must establish a new order of macroeconomic control. We have to find marcoeconommic control means and

methods to meet the new circumstances, and we have to prevent the restoration of the old system. Everyone feels this is an extraordinarily important point. We have to benefit from the experiences of success in the 1981 readjustment, and we have to accept the lessons of the long period of time and the great sacrifices required in the readjustment of the 1960's, using a policy of reform and enlivening to bring inflation under control and increase effective supply. However, some erroneous tendencies are cropping up now. In improving the economic environment, some units in the State Council have attributed the bad consequences of macroeconomic policy errors to the excessive authority of enterprises. Hence, more than 10 classified documents rescinding authority have been sent to enterprises. Some of these documents are in violation of business law. Even before enterprises have been able to put their right to self-determination into effect, even the little authority that they enjoy has also been taken back. For example, banks have completely halted loans to projects for which enterprises have themselves raised money; construction has been halted on projects handled in accordance with procedures for technical transformation; all projects outside of plan have been halted; and Hebei Province has ruled a 25 percent cutback in technical transformation investment, with technical transformation projects in excess of 50,000 yuan also being cutback. Beijing Municipality has issued a directive calling a halt to the use of authority given to districts, counties, bureaus, and companies to initiate projects under 3 million yuan. In addition, energy and transportation costs have been increased from 15 percent to 20 percent, and the Ministry of Finance has levied a stamp tax and a land use fee. Regulations require that wages not exceed the August 1988 level, which has had the effect of canceling the ruling whereby the total amount of contract system wages was linked to enterprises' economic returns. A ruling also requires that enterprises offset imports with products, all foreign exchange-earning exports of processed steel being taken over by the Materials Bureau, and a certain amount of processed steel offered for sale by enterprises also having to be turned over to the Materials Bureau for centralized allocation.

The meeting maintained the various foregoing retractions of authority will be bound to stifle enterprises anew through overcentralization making an increase in effective supply impossible; public revenues will skid and inflation will rise. Unless the central authorities make corrections at once, the old system, with its highly centralized authority, will be restored, and the fruits of 10 years of reform will be wiped out quickly.

The goal of improving and rectifying is to build a socialist commodity economy new order, largely characterized by state-owned large and medium-sized enterprises brimming with vigor and vitality, and playing the main role in the national economy. All measures for improving and rectifying should help realize this goal, and not run counter to it.

The meeting suggested the following by way of doing this:

1. In the curtailing of investment in capital construction, a switch should be made in the principals making the investment from government agencies to enterprises.

The main reason for the long front line in capital construction and the poor returns from investment in the past was that the central government and all levels of local government were the investment principals, having no responsibility for results from investment. A Construction Bank survey of key capital construction projects that have gone into production during the past several years shows that 5 percent of investment was wasted because of work hold ups while waiting for materials. In addition, more than 30 percent of equipment did not produce full returns. There was only a 0 60 yuan return on every yuan. Once enterprises contracted, and used their own accumulations for investment, results were much better than from the large common pot system of centralized state investment. For example, in the importation from Belgium of second-hand steel making equipment, the Capital Iron and Steel Works realized a two-third greater saving in funds than the same kind of domestic project from the beginning of negotiations until the equipment went into operation, and a two-third saving in time as well. It realized a 3 yuan gain for every yuan spent. One has to realize that the increase in industrial returns during the past several years has derived mostly from enterprises' technological transformation, and that the amount of investment required for such projects is small, output is large, and returns are high. In curtailing the scale and the amount of investment in capital construction, it is necessary simultaneously to accelerate a change in the principals making the investment from government agencies to enterprises. The technological transformation of enterprises, particularly of enterprises that produce materials in short supply, must be assured, and a halt called to some state projects that are very wasteful, both central government and local ones being curbed. In the case of projects run by governments other than the central government, emphasis should be directed toward no duplicative construction of storied buildings, public halls, public buildings, or institutes, and processing industries. However, it should be made additionally clear that the building of transportation, energy, and raw and processed materials industries is mainly the responsibility of governments other than the central government. Basic social facilities should be built with funds collected by local governments. The situation in which the central government alone bears the burden of investment in transportation, energy, and raw and processed materials industries must be changed in order to eliminate the focus of infection that causes central government financial deficits, and central bank issuance of currency. If the central government is saddled with the whole burden of construction without rallying local governments and enterprises, all it can do is issue currency in order to raise the needed funds.

2. Perfection of the enterprise contract system can promote readjustment of the industrial structure. Under the present circumstances of very incomplete development of the market mechanism, reliance on markets to regulate and optimum distribution of assets is unrealistic. However, the contract system can encourage industries in need of development and restrict goods in oversupply through the readjustment of base contract figures and the rate of increase. The contract system may also serve as a basis for realizing an optimized grouping of social resources through the development of enterprise takeovers. Capital Iron and Steel Works' active development of socially needed goods after taking over 13 military ordnance enterprises stands as an example.

3. There should be no curtailment of enterprises' rights to make sales of the major means of production when supply cannot keep up with demand. Instead, after setting maximum price limits, suppliers and customers should meet with each other directly. One major reason for the current inflation is too many middlemen in the goods circulation chain, and rampant "official profiteering," and "private profiteering." Were profiteering by too many middlemen to be eradicated, and prices negotiated directly between suppliers and customers, prices would not go out of control.

4. We should linking wages to profits, thereby encouraging staff members and workers in enterprises to develop production and increase supplies, while also effectively controlling consumption funds. During the 1985 tightening of money, two rulings were made. One was that bonuses be paid along with wages. This was called the omnibus wage reform. The second was the freezing of total wages at their March 1985 level, no increases being allowed. The result was a price rise and a wage freeze, the real result of which was to "freeze" worker enthusiasm for production, which caused the February 1986 decline in production. This is a lesson that has been taught. Practice shows that enterprises that institute contract systems, and link the total amount of wages to profits realized have a built-in self-stimulating and self-limiting mechanism that effectively controls wages. The main reason for the current fast increase in bank payouts of cash for wages is the overly rapid increase in wages in the three kinds of partially or wholly foreign-owned enterprises, and in township enterprises. Arbitrary uniformity in the freezing of wages is bound to put a damper on wages in state-owned enterprises, without restricting, and being unable to restrict wages in the three kinds of partially or wholly foreign-owned enterprises, and in township enterprises. This results in greater inequitability of social distributions.

The meeting suggested that we rely on a strategy of perfecting the contract system, and enlivening large and medium-sized enterprises to wipe out inflation and increase effective supply. The state is primarily dependent on large and medium-sized enterprises for its financial revenues, so once large and medium-sized enterprises have been enlivened, they will be able to increase effective supply, and increase financial revenues. The importance of this increase for the debt repayment peak in 1991, and for the current halt to inflation requires no elaboration. Therefore, it is recommended that the enlivening of large and medium-sized enterprises be made the main goal of the current readjustment.

III. How To Perfect and Develop the Contract System

A. A genuine contract system must be instituted.

Many different kinds of contract systems are said to be in use at the present time; actually, however, some contracting methods have not produced true contracting mechanisms in enterprises. A true contract system should adhere to the following points:

1. Long contracting periods. The short-term behavior of a small number of enterprises following contracting is the result of too short contracting periods. The longer the contracting period in enterprises, the better. When contract agreements are drawn up to continue contracts that are about to expire, large enterprises should extend them until the year 2000.

2. All above-quota earnings should be retained by enterprises. Contracting is for the purpose of enabling enterprises to accumulate funds themselves for their own development. Retention of all above-quota earnings is the only way to halt a drain in one area in order to start a build-up in another, and the only way to arouse the enthusiasm of enterprises and of staff members and workers. The very best kind of contracting allows contracting enterprises maximum latitude for initiative and creativity, enabling the enterprises to expand reproduction constantly. If 20 or 30 percent of the above-quota earnings is deducted from the amount retained by enterprises, this will greatly weaken the contract system mechanism that encourages greater achievement.

3. Total wages should be linked to profits. In some enterprises today, total wages are linked to profits paid to higher authority. As a result, the staff members and workers in these enterprises are interested in paying more to higher authority in order to receive a greater distribution themselves, but this places a squeeze on the amount of funds remaining that are available for development. The system that should be used is to link total wages to the profits that the enterprise has made, thereby integrating the interests of the state, enterprises, and staff members and workers.

4. Standardization of forms of contracting. So-called multiple forms of contracting should mean the following: Contracting of fixed amounts of profits to be paid to higher authority, contracting for payment of increased profits, and contracting to reduce losses. Some places currently practice "multiple forms" of contracting in name, when actually they do false contracting. One example is the Ministry of Finance advocacy of profits and tax (income tax) separation, contracting being done

after payment of income taxes. In reality, this is a return to the two-step substitution of the payment of taxes for profits, and an elimination of contracting. Enterprises are unanimously opposed to this.

5. Development of contracting with all personnel. The practice of contracting with individuals that some places use causes conflicts between enterprise management and staff members and workers. The contract system is rooted in the arousal of the enthusiasm of all staff members and workers, and not just the enthusiasm of individual entrepreneurs; therefore contracting with all personnel has to be adhered to.

B. Further implementation of the contract system.

Since the spread of the contract system in May 1987, a turn around has occurred in the 20 consecutive month decline in profits of industries throughout the country. In enterprises under direct central government jurisdiction, however, profits have continued to decline for 35 months. This is attributable primarily to the petroleum, petrochemical, nonferrous metals, coal, and shipbuilding sectors having instituted industry-wide contracting, but not instituting enterprise-by-enterprise contracting for a continuation of the large common pot system. The Petroleum Company headquarters, the Nonferrous Metals Company headquarters, and the Petrochemical Company headquarters should be made contract issuing units, and the personnel, financial and material resources, production, supply, marketing, and both domestic and foreign trade authority, which is now concentrated at the top, should be returned to enterprises.

C. Extensive and well coordinated reforms in connection with enterprise contracting.

Once contracting has been instituted, not only should enterprises have the right to retain all funds in excess of contracted amounts, but they should also have the right to determine projects in which investment is to be made, and self-determination in foreign trade. It is suggested that the CPC Central Committee and the State Council first select 500 large enterprises who have instituted the contract system as experimental units for a removal of restraints on operations. Enterprises producing goods that are in shortest supply should be most freed from restraints. Later on, this removal of restraints can be gradually expanded until such restraints have been removed from all large and medium-sized enterprises.

If we are able to enliven large and medium-sized enterprises in the process of improving and rectifying, not only will be able to halt inflation very rapidly, but a fine situation can also come about in which the industrial structure is rational, market commodities are plentiful, and the economy prospers increasingly.

Enterprise Upgrading Seen as Bureaucratic Exercise

40060260 Shanghai SHIJIE JINGJI DAOBAO in Chinese 5 Dec 88 p 10

[Article by Gu Shiyu 7357 0013 3842, Deputy Plant Manager, Wuhan Light Industrial Machinery Plant: "Evaluation of 'Enterprise Upgrading'"]

[Text] If productivity is to be used as the standard for judging the quality of an enterprise, then, in China, as in developed countries, there is no need for the state and the government to take part in an evaluation.

The movement to upgrade enterprises is affecting economic life today; however, a general analysis and an overall weighing of the pros and cons shows this movement to be of no benefit to either reform or development.

1. The goal of both reform and development is to increase productivity. The same is true for the overall goal of an enterprise, in which the standard for whether anything is good or bad must be whether it helps develop production. Because of the excessive current emphasis on and amount of effort devoted to "upgrading," it is by no means uncommon for enterprises to upgrade for the sake of upgrading. Since there can be no standard other than the standard of productivity for judging what is good for an enterprise, the setting up of this additional goal of upgrading is both duplicatory and unnecessary.

2. There are overall goals for reform, and there are sub-goals for enterprise reform. These sub-goals are to allow enterprises to get out of the position of being administrative appendages to become fully independent (having no administrative superiors) commodity producers and sellers. The enterprise reform process is a process whereby entrepreneurs seek out and abide by economic laws that enable enterprises to develop and become stronger in the commodity economy ocean. This is a "natural upgrading" process. Upgrading of enterprises through the use of administrative methods does not help the separation of government administration from enterprise management, does not help the separation of ownership from operation, and does not help enterprises be more concerned with markets. In the final analysis, it is a method applicable to a product economy.

3. Reform requires that government intensify both service to and monitoring of enterprises, creating a fine external atmosphere in which enterprises can operate. When agencies in charge work on upgrading enterprises, this does not help weaken their direct supervisory function, and it makes difficult the cutting of the product economy umbilical cord between enterprises and government.

4. Despite the emphasis on realism and the avoidance of formalism in the upgrading of enterprises, because the old pattern of using administrative methods to control

the economy has not been discarded, it is difficult to avoid formalism and resort to deception. The expenditure of large amounts of manpower, material, and financial resources for this purpose, and the entertaining of various inspection groups and teams with food and drink would become so commonplace that people would not consider it at all out of the ordinary.

5. Markets have not yet developed sufficiently, and the pricing system is still not entirely equitable. This creates the current unequal competitive situation for different enterprises. Will the very great amount of energy expended by various industrial supervisory agencies, the very large number of rules established, and the no small number of norms formulated in the process of upgrading enterprises create a basically equal competitive environment? No, nor can they. An equal competitive environment requires the formation of a market mechanism, and no matter what ingenious ways administrative forces may employ, they will be unable to surpass the optimum solution derived from economic functions that is the market medium. On the contrary, it may intensify the evils of "paternalism" at one extreme, and "discouraging the front-runners while failing to spur the laggards" at the other.

6. Is enterprise upgrading a kind of super economic force? The continued strengthening of high level responsibility over enterprises when the "official standard" atmosphere has yet to be removed from the business field can only weaken entrepreneurs' commodity economy awareness. Moreover, in the movement to upgrade enterprises, clearly it is responsibility to higher authoritty that is paramount. In our economic activity, the focal point for conflicts is too low returns. People do not doubt that the basic intention in the upgrading of enterprises is an increase in returns, nor do they doubt that returns and upgrading have points in common. Nevertheless, people have more reason to believe that only by making sure that enterprises produce returns can "upgrading" be assured, but focusing strongly on the upgrading of enterprises will not necessarily mean an increase in their returns. Desiring something of one's own free will is real motivation. What is it that enterprises are working their hearts out to obtain right now? It is real returns, and not differences in form.

7. If enterprises have no superiors, who will be the enterprises' "god"? Markets, customers, and consumers. It cannot be denied that entrepreneurs are happy when they receive government approbation, but the greatest joy for an entrepreneur should be customer satisfaction, consumer approval, and market recognition. It is very difficult to maintain an optimistic attitude about the ultimate outcome of the movement to upgrade enterprises. For many years we have employed administrative methods to push for general quality control and to select superior quality products, but without ever fundamentally correcting the poor quality of our products. There can be no economic activity divorced from cost calculations, and costs have to be taken into account in reform and development as well. Despite the expenditure of a very great amount of energy on the part of government and enterprises, attainment of anticipated results can be difficult, so the evaluation of enterprises should be entrusted to markets, customers, and consumers.

8. Though we have yet to shape a fully developed corps of entrepreneurs, an overwhelming majority of plant managers and directors are quite aware of the the administration and management situations in their own enterprises. Thus, no matter how finely honed the standards for upgrading, in the end it will be people who are not thoroughly knowledgeable of the enterprise who will be surveying and assessing in a structured way. Thus, the following two situations will be difficult to avoid: they will either be unable to analyze concrete problems in concrete ways, or through trying to conform actions at the bottom to policies from the top, enterprises will muddle through difficulties, the meaning of enterprise upgrading being lost along the way.

Nowadays, increasing numbers of people realize that productivity has no class character in and of itself; consequently, if the objective standard of the development of productivity is used to judge enterprise quality, then, in China, as in developed countries, there is no need for the state and the government to take part in an evaluation.

One matter that cannot help but make people think is the difficulties and the complications involved in the change from the old to the new system. Several decades of a product economy is not only tremendously habit forming, but also functions as a kind of self-protection. At every juncture in reform, the old system frequently manifests a certain resilience not caused by people's conscious behavior. In view of this, we must make unflagging efforts to transform the existing economic system.

Year-End Commentary Sees New Focus on Enterprise Reform

40060213 Beijing LIAOWANG [OUTLOOK] in Chinese No 50, 12 Dec 88 pp 21-22

[Article by Gao Qinglin 7559 1987 2651: "New Focus on Enterprise Reform; the Second of LIAOWANG's Year-End Economic Commentaries"]

[Text] The status of Chinese economic reform has varied greatly throughout this year. The central importance of deepening enterprise reform has been emphasized in the 13th Party Congress which convened in November of last year; in the 7th National People's Congress of last spring; and in the 1988 reform program released by the National Commission on Reform of the Economic System. Nevertheless, this central line has not been adhered to in the implementation of economic reform. Particularly in mid-year, when price reform was poised for implementation, a series of phenomena occurred simultaneously. Prices rose sharply, followed by panic buying

and bank runs. The contract responsibility system, which began to be implemented fully only last year and calls for enterprises to "strictly guarantee the base figure, assure payment of taxes, increase retention of above-quota profits, and rely on oneself to recoup losses," was beset by a withering onslaught of inflation. At the same time, academic debate concerning the relative importance of enterprise reform and price reform became extremely intense. In the fourth quarter, with the defe ment of price reform and the appearance of a series of remedies and overhauls brought forth by the Party's central leadership, the focus of Chinese reform has once again returned to the primary unit of economic activity—the enterprise. This represents a reawakening following the payment of a high price.

A bright spot is the fact that, although the economic environment this year has not been ideal, taxes and profits turned over to the state in the first three quarters of 1988 by industries and enterprises included in the national budget showed an 8.8 percent increase over the same period of the previous year. This was no easy accomplishment.

The Enterprise: The Nucleus of Reform and Development

The Chinese economy during the first half of this year was relatively stable in spite of the inconspicuous existence of certain problems—not enough banknotes were recovered from circulation and money supply was too high. After May, prices went out of control and inflation spurred nationwide panic buying and bank runs. These grim realities threw a bucket of cold water on incipient plans to tackle price reform. After the third plenum of the 13th Party Congress, the central leadership made adjustments to reform plans and decided to slow the pace of price reform, and first concentrate on bringing the economy under control and rectifying the economic order. Special emphasis was placed on making sure price increases next year be clearly smaller than those of this year, and on raising the issue of enterprise reform to a position of importance on the agenda.

The great majority of those in the economic sphere express agreement with this. Some specialists point out that price reforms should depend on, and follow the lead of, enterprise reform. Enterprise reform is the fundamental element, while price reform should be the result and final outcome of enterprise reform. It is readily apparent that when total demand exceeds total supply; when enterprises lack any mechanism for self-regulation; when a competitive market economy is far from established; and when the ability of the government to exercise macroeconomic control is still extremely limited; that simply "freeing" prices will not only fail to stimulate the economy, but will throw it into chaos. For example, if the price of raw materials rises before competition between enterprises has taken root, enterprises would not hesitate to pass on the cost to consumers because there would be no need to worry about losing market share.

It is not hard to see from further analysis that the solution to the problem of imbalance of supply and demand requires that enterprises create greater social wealth and more effective mechanisms of supply. If enterprises are to be capable of self-regulation, a thorough restructuring of the enterprise system must take place. If a competitive market economy is to be created, there must first be enterprises in existence which are capable of creating such an economy. If the government's macroeconomic control is to be made more effective, then it is prerequisite that enterprises respond with agility to market signals. From the above, it apparent that in the final analysis, the problems which must be solved by reform, and the focus of these reforms, involve the enterprise. This is also the case when the issue is viewed from the point of view of economic development.

Therefore, from beginning to end we must tenaciously hold our focus on the central reform principle of stimulating enterprise. We must not only understand this principle in our hearts; our actions must clearly demonstrate it.

Contract Responsibility System: Continuing To Play the Main Role

Finance depends on industry, and industry depends on contracting. The contract responsibility system has gradually evolved within China's enterprises during the last ten years of reform, and practical experience has proven it to be an effective method of operation. This system has been implemented widely since May of last year, and already 85 percent of China's industrial enterprises which fall under the state plan and 93 percent of all large and medium-sized enterprises have implemented the contract responsibility system. The contract responsibility system already constitutes the basic frame of China's enterprise system. In view of the recent success of the contract responsibility system and the strict legality of contracts, one can predict that, though the contract responsibility system may exhibit some shortcomings, it will continue to play the main role during the next several years of Chinese enterprise reform.

Last year, the appearance of the contract responsibility system brought about outstanding results by immediately ending the 20-month downhill slide of China's industry. Specialists calculate that of the 11.8 billion yuan revenue increase in 1987, more than 6 billion yuan were generated by the contract responsibility system.

In contrast, while this year was one in which the contract responsibility system should have produced brilliant success, it encountered very difficult economic conditions. The load carried by enterprises was made much

heavier by cost increases brought on by sharp price rises for raw materials, rate hikes for electricity, increased price subsidies for nonstaple foodstuffs, and higher interest rates on bank loans. Because contract base numbers cannot in principle be changed, enterprises were forced to absorb any losses incurred by drops of several billion yuan in revenues. In spite of this, enterprises in Beijing and a few other cities where the contract responsibility system began to be implemented at a relatively early date have shown a fairly large increase in output value and profit taxes. In the period running from January to October, the sales revenues of the nation's industrial enterprises included in the state plan registered a 22.3 percent increase over the same period of the previous year, while profit taxes realized a net increase of 16.8 percent. This shows that the contract responsibility system was able to withstand the shock of rising prices, and is a very hardy survivor.

While on the one hand the contract responsibility system has suffered many setbacks, on the other hand it is still continually being deepened and perfected. It has provided a mechanism for competition and brought about universal implementation of competitive contract bidding. It has integrated the goals of the contract system with the raising of enterprise wage scales. Enterprises are now carrying out the full load work method. Enterprises in some cities have begun to cut down on the number of workers, and improved worker groups. The positive results achieved by this coordinated series of reform measures have strengthened the resolve of reformers to continue to carry forward implementation of the contract responsibility system.

Property Rights System Reform: A Promising New Development

This year, as the contract responsibility system was being deepened and perfected, the leasing, sale, and merger of enterprises also jumped onto the stage of China's enterprise reform effort. At present, implementation of these reforms is limited to small-scale enterprises. Property rights transfer markets have been established in Baoding, Wuhan, and Chongqing, where enterprises are merged and introduced into the market. According to incomplete figures, more than 1,500 enterprises across the nation have already been merged. This "merger fever," neither large nor small, has spurred clarification of the definition of equity ownership rights, and improvement of equity transfer, and the process of equity management. Not long ago, the State Administration of State Property was officially established. It will handle the leasing, sale, and merger of government-owned assets.

Because plans for reform have changed, the hot topic of conversation in economic circles as this year comes to a close is the shareholding system. Statistics reveal that nationwide, over 6000 small and medium-sized enterprises have already implemented the shareholding system. In Shenyang, Shanghai, Guangzhou, Shenzhen, and Beijing, ten or twenty fairly standard stock enterprises of medium to large size have even appeared. By the end of this year, Shenzhen will have implemented the shareholding system among all state-owned enterprises. Shenyang, Guangzhou, and Shanghai will become national experimental regions for the shareholding. In a related development, an unusually intense series of conferences has been held on the shareholding system and the stock market. In this year alone more than 100 conferences, round table discussions and seminars on this subject have taken place. All these occurrences indicate that this trend constitutes a challenge to the traditional system of equity, and that the shareholding system will officially jump onto the stage of China's economic reform.

The "shareholding craze" has delivered a shock to the contract responsibility system, which itself only began to be implemented one year ago. Some believe that the contract responsibility system is merely an expedient measure which, while strengthening the old system, will prove less and less useful as time goes on. One scholar pointed out that the contract responsibility system has brought with it three problems: first, enterprises exhibit short-term behavior; second, income is distributed unevenly between contractors and their workers and staff; and third, this system does not induce optimum disposal of natural resources throughout society. Even if, through perfection of the contract responsibility system, the first two problems were solved, there would still be no way the contract responsibility system could solve the third problem.

Some leaders of enterprises where the contract responsibility system has been implemented, and particularly those enterprises where implementation occurred at a relatively early date and where management is relatively good, are extremely worried about this. They feel that tactics for economic reform are continually changed; that before one person has finished singing, the next performer has run on stage; that before the contract responsibility system has finished its act, the curtain has begun to fall; and that this might scatter to the four winds what has already been achieved by the contract responsibility system.

Since the beginning of economic reforms, the contract responsibility system has met with uneven success and mixed reviews. At first, the debate centered on the relative merits of the contract responsibility system versus substitution of taxes for surrendered profit, while this year everyone has been arguing whether the contract responsibility system or the shareholding system is superior, and which can be more practically applied in today's China. As the debates grow more profound, people's understanding is deepened. Some people have begun to realize that the contract responsibility system and the shareholding system are not mutually antagonistic. The ideal and the practical could be combined in a choice which allowed for coexistence of both the shareholding system and the contract responsibility system. As to the areas in which each system would be implemented, it should be made absolutely clear that for the

next few years the contract responsibility system will continue to be the fundamental enterprise system. The shareholding system is still in an experimental phase. It will only be gradually introduced where there is newly increased investment or equity reorganization.

The contract responsibility system; leasing, selling, and merging of enterprises; and the shareholding system—they all share the common goal of stimulating the enterprise. They all seek to lay a solid foundation for future reforms of the system of economic planning, the system of management of goods and materials, the financial system, and the price system.

JINGJI GUANLI Views Reform of Investment Management System

HK2501033389 Beijing JINGJI GUANLI in Chinese No 10, Oct 88 pp 40-43

[Article by Liu Zuoxian 2629 0155 6343, edited by An Luming 1344 6424 2494: "Fundamental Measures Are Needed for the Reform of the System of Investment Management"]

[Text] Our country has been engaged in economic structural reform for close to 10 years. In this period, some reforms of the investment system have been carried out. These have included opening up diverse funds sources for investment, instituting compensated use of investment, simplifying the examination and approval procedures for construction projects, relaxing the examination and approval jurisdictions for various projects and implementing tendering and the contract responsibility system. However, seen overall, in the reform of the investment structure, not only have some basic problems not been addressed or resolved, but some of the reforms that have been instituted have seen very little in the way of results. Some of the reforms have produced new problems and contradictions, resulting in some "reform achievements" becoming the next targets for reform. It even happens that all the previous achievements are lost. This article intends to propose some ideas for the reform of the investment system for the reference of and study by relevant departments.

I. Reform Results Are Very Limited and Contradictions Have Emerged in an Endless Stream

The present investment system is a product of the commodity economy model. Its basic characteristics are: Its planned management is highly centralized and the role of the law of value is excluded. On the investment level, there is unified allocation of investment and uncompensated use; on the goods and materials level, there is unified allocation and prices are divorced from the law of value; on the planning level, the supply system is based on a unified model; and in construction, there is an "arranged marriage system." Thus, over the last 30 years, there have been many long-standing abuses. Since the 3d plenary session of the 11th CPC Central Committee, although there have been reforms carried out in various aspects, because of the biases in reform ideas and strategies, the persistent problems in the investment field have not been basically cured, investment "hunger" still exists, the inflation in the scale of investment is still expanding and major state construction projects cannot get sufficient investment and goods and materials guarantees. Let us analyze the results of the various aspects of the reforms that have already been implemented.

1. Through the reforms, fixed-asset investment has changed from unitary financial allocations to multichannel, multilevel raising of funds. It can be said that this is a step forward. However, because the investment planning and management system has not been correspondingly reformed, the old model of centralized and unified planning, and planning departments directly determining projects, has been maintained. This not only is opposed to the multichannel, multilevel raising of funds, but inevitably leaves the long-standing problems of decision-makers not assuming responsibility, banks not having decision-making power in the issuing of credit, enterprises not taking risks when they spend money, investment benefits not being high and responsibilities, rights, efficiency, and interests being separated. This has meant that the "hunger" of many projects and many investments has been difficult to fully satisfy and the deep-rooted problem of inflation in the scale of investment has been difficult to eradicate.

2. Through the reforms, investment in fixed assets has changed from uncompensated use of financial allocations to compensated use of bank credit. This is also a step forward. However, this reform is not complete and is not thorough-going. Because the various associated structures cannot be reformed in a coordinated way, some new contradictions have been produced. In name, bank credit is used on a compensated basis, but in fact it constitutes extended subsidies. As everyone knows, the production period for architectural products is quite long. A construction project commences when credit is made available, and the credit begins to be repaid only when the project is completed and is put into operation. This is at least 2 to 3 years later and may be 5, 6, or even 10-plus years later. During this period, the bank will be paying cash interest on the funds it has acquired, while those who borrowed the funds will pay the interest only at the time of repayment. Not only is a large amount of money lost through advance payments of interest, but losses are also sustained through the time difference when the interest is paid. This seriously obstructs the operational mechanism of banks, affects their income, and affects the completion of tasks involving amounts to be submitted. Added to this is the fact that there are projects that have poor results and cannot repay capital or interest. The results of such projects do not need to be detailed.

3. The simplifying of examination and approval procedures for projects and the relaxing of examination and approval jurisdiction limits have been qualitatively and quantitatively insufficient, and there has not been the

streamlining of administration and the comprehensive handing down of power required by the spirit and reform plans of the central authorities. Seen from the practice of the current reform of the investment structure, there have been many situations where government administration has been complex, organs numerous, staff excessive, and power further centralized. This has brought further complexity and difficulties to the reform of the investment structure and it has become more difficult to get rid of the old abuses.

4. Certain achievements have been realized within particular scopes with responsibility systems based on tendering and contracting, and the mechanism of competition has played a certain role. However, because the system has not changed accordingly and administrative interference is excessive, the progress of this reform is slow and in many cases these systems exist in name but not in fact. Regardless of whether we speak of tenders for design, tenders for building projects, or tenders for construction work, because administrative interference is excessive, the assessment of the qualifications and reputation of the tenderers is not completely fair and rational, and territorial concepts and selfish departmentalism are serious. Thus, the tenderers are unable to participate in competition equally and a situation where the superior succeeds and the inferior are weeded out cannot be formed. In the tendering for construction work on a particular project, the local government acts as a "nanny" and "guardian" and, in one way or another has the backward local construction work enterprise "win the tender." It prefers to let the company have enough to eat, and is unwilling to have it do business in the turbulent currents of competition. Some local governments, being unable to stop outside enterprises winning the tender, have set up repeated obstacles, such as not providing a construction site, not arranging food supplies, and so on. This is one of the major reasons why at present the investment results in some projects are poor, the construction periods are long, and costs continue to increase.

II. The Major Problems at Present in the Reform of the Investment System

The problems in the present reform of the investment system exist on many sides, and the views of theoretical circles and the actual work departments are widely divergent. Although one reform plan after another has been put forward, because the initial trains of thought are biased, the strategic goals are confused, and the specific measures are not practical, there are changes this way and that, but in the end no real escape from the old system is achieved. Without a thoroughgoing change in the conceptual level, we will keep turning around in the same place. Here I will present a few actual examples from which it is possible to see what I mean:

1. The concepts of the state planning departments have not yet been changed, the functions have not seen basic change, and a macroeconomic regulation and control system that truly accords with the patterns of development of a socialist commodity economy has not yet been established. The investment planning system has not been basically reformed, there are many matters on the macroeconomic level that have not been handled, and there is frequent loss of macroeconomic control. On the microeconomic level, much power that should have been handed down has not been handed down, direct management is excessive and too tight, and the managers are all day bogged down in the detailed work of setting projects, approving projects, allocating money and materials, and so on. Likewise, the relationships with related planning, financial, and banking departments have not yet been put in order, planning departments have too much power, and they do not coordinate their work on the basis of equality with relevant comprehensive departments. Rather, they place themselves above these other departments and issue orders. The result is that there are structural contradictions, work is impeded, and there is much quarreling and sluggishness. This results in great strengths being counteracted and seriously affects the coordinated bringing into play of macroeconomic regulation and control roles.

The train of thought behind the reforms and the pace of implementation go against state policies and strategic goals. The guiding ideas of state reforms are the changing of functions, the readjustment of organs, the handing down of power, and the raising of efficiency. At present, the reform of the planning departments does not involve the handing down of power, but rather the centralizing, in its own hands, of that investment decision-making power which had previously been given to the various management departments. Also, there has not been much progress in changing from direct regulation and control to indirect regulation and control. Instead, direct control measures over investment decision-making and funds management have been strengthened. At present, an investment situation of many principals, many levels, and many channels for funds is gradually being formed, and lateral economic links are daily expanding. However, the planning department management measures are still mainly centralized, direct and vertical, which results in the already existing contradictions further increasing and becoming more intense. If we continue with this train of thought and at this pace, there will be no way to achieve the strategic targets of the reform of the investment system.

3. The state has already decided to implement a fund system for capital construction. This is an important component part of the reform of the investment system. Managing and utilizing these " capital construction funds" well and ensuring that they circulate and grow rationally was originally to be a task of the financial administration and banks. However, the planning departments had to interfere, with the result that this reform became complex. Thus, the relevant management methods were delayed or could not be initiated and the specific measures could not be implemented. Actually, the planning departments have no need to establish

administrative investment companies, as this is equivalent to adding another intermediate level and forming a "No. 2 Planning Commission" and will result in a decline in work efficiency. Industrial investment companies should not be led by planning departments. Planning departments are government functional departments, while specialized investment companies are economic entities. Direct leadership by planning departments will inevitably be accompanied by excessive administrative intervention, fettering the economic entities and affecting the normal operation of the operational mechanism. At the same time, it will also inevitably disperse the energy of the planning departments and weaken their role as government functional departments and their macroeconomic regulatory and control role.

III. Suggestions and Countermeasures

In the reform of the investment management system, correct strategic ideas should first be established and then countermeasures should be adopted to cure the source of the problems. We must not follow the line of "redistribution of power and rearrangement of personnel" and, on the basis of patch-up measures and expedient devices, lose a fine opportunity for reform. The reform of the investment system is an arduous and complex engineering project. It touches on many areas and there are many restricting factors. Not only must opinions from many sides be listened to, but a specialized committee must be organized to carry out the setting down of the program subsequent to scientific discussion. The many and varied aspects of the investment system reform cannot all be carried out at the same pace. The first thing to do is to handle the major contradictions and major contradictory aspects. It is proposed that the following countermeasures be adopted:

1. The planning departments must truly change their concepts, change their functions, thoroughly reform the investment planning and management system, and achieve the strategic targets put forward by the 13th Party Congress and the 7th NPC. This is the major contradiction and major contradictory aspect at present. If this contradiction is not resolved, the reform of other aspects of the investment system will be just empty talk. The reform of the investment planning system should be carried out from various angles:

1) The planning departments, as government functional departments, in accordance with the spirit of government structural reform put forward by the Seventh NPC, must first change their concepts, change their functions, and correctly exercise and fully bring into play their functional role in regulating and controlling the economy. First, they must thoroughly leave behind the tiresome work of setting projects and allocating money and goods and materials, and must centralize their energy in planning well macroeconomic regulation and control mechanisms and doing well in macroeconomic regulation and control work. Second, a scientific, complete and systematic macroeconomic regulation and control system must be established, the various economic information investigation and collection measures should be strengthened, macroeconomic scientific forecasting should be strengthened, and comprehensive balancing work should also be strengthened. On this basis, medium- and long-term economic and social development plans and regional exploitation and development plans can be formulated, while industrial and product plans and industrial policies can also be formulated. They will guide the orientation of investment, readjust the investment structure, and optimize industrial deployment and the distribution of productive forces. Thereby, the industrial structure will move towards a rational situation, and macroeconomic, medioeconomic, and microeconomic planning will be organically combined. This process will form a scientific, complete, and systematic project. Third, a scientific monitoring and control system which has unimpeded flow of information, which is sensitive in its reaction, and which has modern methods, needs to be established. This will continually exercise regulation over the scale of investment, the orientation of investment, and the investment structure, and thus guarantee the stable and coordinated development of the national economy.

2) In accordance with the principle of developing a socialist commodity economy, the planning departments should establish, on the ideological level, the concept of utilizing and harnessing the law of value. The scope of mandatory planning should be gradually reduced and the scope of guidance planning and regulation by the market mechanism should be expanded; direct intervention by administrative measures should be gradually reduced and there should be more use of economic measures to carry out indirect regulation and control; direct interference in financial, banking, and goods and materials departments by the planning departments' administrative orders should be changed to a combination of planning guidance and regulation through policies.

2. It is necessary to seriously implement and truly manifest the principle of "the state regulating the market and the market guiding enterprises." If the state is to regulate the market, it is first necessary to open markets and form markets, thereby creating a complete socialist market system. At present, the various types of markets in our country cannot completely accord with the demands of a socialist commodity economy, and are even less able to form a market system. Thus, the pressing task at present is to grasp the establishment of a socialist market system. If the state is to regulate the market, then first a funds market, a means of production market, and a construction market must be opened. In these markets, the state will not use administrative measures, but will use various economic policies to carry out adjustment. In other words, state planning must be oriented to the market, rather than oriented towards specific projects and enterprises. Even less should it be oriented towards the financial, banking, goods and materials, and construction departments. If the market is to

guide enterprises, it must manifest socialist commodity economy principles. The enterprises must no longer rely on the administrative departments and no longer allow arbitrary interference. Rather, they should have the status of independent socialist commodity producers and operators who decide their own operations, are responsible for their own profits and losses, take on risks, and pay taxes in accordance with the law. They must, in accordance with the principles of equality, as well as mutually beneficial and compensated transactions, orient themselves towards the market and engage in competition. The decisions on project orientation, fund raising, arrangement of goods and materials, and design and construction must be taken through market competition in which the superior succeed and the inferior are eliminated, and by which the state plans will be completed with guaranteed quality, quantity, and in a guaranteed time. That is to say, the enterprises must orient themselves towards the market and all their needs, like all their products, should be handled through the trials of the market.

3. Economic measures should be used to manage capital construction funds. Our country's establishment of a capital construction fund system is a major reform of the investment system and the financial system. In order to manage these "capital construction funds" well, and ensure that the products of this reform do not become the target for subsequent reform, we should completely do away with direct control by the planning departments. Rather, in accordance with the spirit of the state decision to hand this over to management by specialized banks, we should use banks to carry out management. The financial departments will then annually allocate to the specialized banks an amount of "capital construction funds" on the basis of the level of economic development and the amount stipulated in the financial budget. The specialized banks will use the funds in accordance with state-planned distribution and management and will guarantee the rational turnover and growth of "capital construction funds." In this way, not only will it be possible to guarantee the continuous strengthening of economic development reserves, but through a certain period of operation, it will be possible to gradually reduce the expenditure of "capital construction funds" in the financial budget, gradually increase the economic power of the specialized banks, and finally achieve a situation where purely credit funds are used to finance fixed-asset investment and all investment is made entirely subject to the market.

The use-orientation of "capital construction funds" should be such that first those projects that have poor economic benefits but good social benefits [she hui xiaoyi 4357 2585 2400 4135] and that play a backbone role in national economic development must be guaranteed. At present, state "capital construction funds" should mainly be used in energy, communications, and raw materials industries and for basic facilities that have an overall significance. Local "capital construction funds," apart from being used in local projects of those types noted above, should also be used in the construction of educational, health, and other welfare facilities. In this way, a base will be laid down for overall economic development, reserve strengths will be arranged, and a fine environment for investment activities will be created. This will enable the process of fixed-asset investment to move along the right track.

4. The establishment of investment companies should not result in additional administrative levels and should not add surplus links to the chain of economic movement. Rather, it should be a measure that strengthens industrial management and intensive operations. In accordance with this line of thought, those investment companies of a purely administrative nature that have been newly established by enterprises, if they exist purely as an additional administrative level, should be abolished. Otherwise, it will not be acting in accordance with the spirit of simplifying administration, handing down power, and reducing the number of intermediate links. Operational investment companies are economic entities and there will be problems if they are put under the direct leadership of the planning departments: First, having government organs run enterprises is something widely avoided in China and abroad; second, the planning departments have excessive centralized power and could easily slip into the carrying out of day-to-day operations. This would weaken their macroeconomic regulation and control [tiao kong 6148 2235] role; third, if the hands and feet of specialized investment companies are fettered, it will be difficult for them to invigorate their operations. Here there are two countermeasures which can be chosen from:

1. The specialized investment companies will, on the administrative level, come under the the leadership of the State Council, like a directly-subordinate office. On the economic level, they will implement state plans and industrial policies. They will also raise their own funds, take their own operational decisions, be responsible for their own profits and losses, and take on their own risks. In accordance with state plans and industrial policies, they will formulate implementation plans for their industry, decide on specific construction projects, and organize construction and operation. They will have an economic relationship, a borrower-lender relationship with the specialized banks. Apart from the "capital construction funds" portion that will be lent in accordance with mandatory planning, the banks will not guarantee funds. The companies will also have the right to raise funds on many sides.

2. The specialized investment companies could be placed completely into the market. Administratively they could be entirely independent, while on the economic level, they would implement state plans and industrial policies as well as raise their own funds, take their own operational decisions, be responsible for their own profits and losses and take on their own risks. This would fully bring into play the economic functions of the specialized investment companies and would spur them

into engaging in intensive operations and stressing economic benefits. It will be possible for them to centralize funds and spread out their operations. It will also be possible for them to centralize funds and organize production-line construction with special industries and products. The funds raised could be used in this industry or used in joint operations which cross industries. It should be possible to borrow "capital construction funds" and credit funds from specialized banks. It should also be possible to commission the banks to to issue company bonds and borrow from abroad. However, the specialized investment companies should not be permitted to use the funds they have borrowed from the banks to engage in direct investment or purchase participatory or controlling shareholdings. As this credit will not be capital funds of the company, such liabilities should not be used to purchase shareholdings. The companies, in their borrowing activities, should only be general agents for enterprises.

3. The relationship between planning, the financial administration, and banks should be put in order and the right of the banks to make their own decisions in regard to issuing credit and in deciding whether or not to participate in projects should be affirmed. In fixed-asset investment, the credit funds used are far greater than the financial funds used, and their use will continue to increase. The banks should have the right, in accordance with state plans and industrial policies, and within the scale of credit, to approve projects and issue credit funds to the superior projects.

For this purpose, we should set down a certain procedure. We should abide by the procedures by which a project must be subject to a feasibility study and scientific assessment, and then be again subject to appraisal and choice of projects, before it can it can go ahead. The procedure should not be the other way around. The decision to proceed with large- and medium-size projects should involve the participatory decision-making power of the specialized banks and their power to deny credit. No departments should be able to replace them in this. For small projects, while specialized banks and the specialized investment companies will both enjoy decision-making power as to which projects will proceed, the banks should have complete decision-making power in the credit arena. That is, with the precondition of guaranteeing the "five no-changes," they will be able to decide for themselves which projects are superior and worthy of credit. The establishment of such a procedure will be able to fully bring into play the regulation and control function of planning and will also be able to bring into play the macroeconomic regulation and control role of the banks. With the organic linkage of these two regulation and control mechanisms, the reform of the investment system will be able to develop in a scientific and rational direction.

4. The system of calling for and submission of tenders should be widely implemented, so as to fully bring into play the role of the mechanism of competition.

48 Counties Complete Rural Electrification

OW0301075189 Beijing XINHUA Domestic Service in Chinese 1252 GMT 2 Jan 89

[Local Broadcast News Service]

[Text] Beijing, 2 Jan (XINHUA)—China has achieved new progress in rural electrification. According to preliminary statitics, 645 small hydroelectric power stations were completed and put into operation across the nation in 1988, increasing the nation's installed generating capacity by 708,000 kw.

While building electric power stations, departments of water resources at all levels have paid attention to the construction of local power grids. They have also strengthened the administration and technical management of small hydroelectric power stations and local power grids. Therefore, even under the condition of drought in most of the southern provinces last year, small hydroelectric power stations last year produced 30.3 billion kwh of electricity, an increase of 1.3 billion kwh over the 1987 figure.

In 1988, 100 pilot counties continued to carry out rural electrification. Another 24 counties have passed inspections and reached the preliminary stage of rural electrification. So, there are all together 48 counties in the nation that have accomplished rural electrification.

Procuratorate Organs Crack Down on Corruption

OW0101075089 Beijing XINHUA Domestic Service in Chinese 1235 GMT 28 Dec 88

[Text] Beijing, 28 Dec (XINHUA)—A responsible person of the Supreme People's Procuratorate today disclosed that the nation's procuratorial organs have achieved marked results in investigating and handling cases of embezzlement and bribe-taking. Between the January - October period, procuratorial organs at all levels placed a total of 25,804 cases of economic crime on file for investigation. Among these were 13,081 cases of embezzlement and 3,870 cases of bribe-taking. Illicit money and articles worth over 300 million yuan were confiscated.

The responsible person noted that of all embezzlement cases which were put on file for investigation, 1,908 cases involved embezzled money amounting to over 10,000 yuan, 100 cases involved embezzled money amounting to over 100,000 yuan, 30 cases involved embezzled money amounting to over 200,000 yuan, and 18 cases involved embezzled money amounting to over 500,000 yuan. The top embezzler was Zhang Xiaoming, general manager of Zhijiang Electronics Industrial Company in Zhujiang, who embezzled 4.68 million Hong Kong dollars. (This case has been investigated and is now closed.) Of all the cracked major corruption cases involving amounts over 10,000 yuan, 559 involved personnel working in party and government organs, 2,330

involved personnel working in enterprises and institutions, 438 involved Communist Party members, 55 were county-level cadres holding the post of section chiefs, and 2 were cadres holding the posts of department and bureau chiefs.

Of all the bribe-taking cases put on file for investigation, 365 cases involved bribe money of more than 10,000 yuan, 22 cases involved bribe money of more than 100,000 yuan, 6 cases involved bribe money of more than 200,000 yuan, and 4 cases involved bribe money of more than 500,000 yuan. The top bribe-takers were Hu Shaokun and Zeng Zhaoxiang, customs officials at Shenzhen City Jiulong Customs, who received bribes of over 900,000 yuan, over 1.8 million Hong Kong dollars. They smuggled or let other people smuggle in goods worth more than 33 million yuan. (The case has been investigated and is now closed. The illicit money has been recovered and Hu Shaokun and Zeng Zhaoxiang have been prosecuted.) Of all the cracked major cases of bribe-taking involving an amount over 10,000 yuan, 192 involved personnel working in party and government organs, 491 involved personnel working in enterprises and institutions, 148 were Chinese Communist Party members, and 45 were county-level cadres holding the posts of section chiefs.

PROVINCIAL

Article Suggests Economic Development Strategy for Shaanxi

40060218 Xian SHAANXI RIBAO in Chinese
6 Dec 88 p 1

[Article by Du Lugong 2629 7627 0361: "Raw Materials Shortages Hamper Economic Growth in Shaanxi"]

[Text] Shaanxi's economy took shape under a highly-centralized form of national economic planning. Its characteristics are the classical "structural dualism" and "lopsided economy." Under state planning, a solid industrial base centered on Xian was the first to develop. Consisting primarily of processing industries, this base became Shaanxi's economic pillar. For years the industrial enterprises relied on command planning for their supply of raw materials. Their products too were allocated through command planning for sale at home and abroad. During the transition from the product economy dominated by command planning to the commodity economy, processing industries have become out of sync with the raw materials industries as a result of uncoordinated resource allocation. A gap has always existed between advanced industrial productive forces and the existing natural and semi-natural economy. As reform intensifies and the country becomes more and more open to the outside world, particularly in the wake of the development of a commodity economy, the weaknesses of this kind of economic structure have become increasingly conspicuous, severely hampering economic development and the drive to improve efficiency. We cannot turn this passive situation around overnight. For some time to come, we must work with what we already have and develop from there. Moreover, as a result of a shift in priorities in national economic construction, there would be far fewer large-scale projects in the days ahead than previously, with the exception of some places that need new projects. Instead, the emphasis would be on adjusting the industrial structure, transforming traditional industries, introducing foreign technology, achieving technical progress, and moving in the direction of coordination. All this requires that we redirect our attention to overhauling our lopsided economy, adjusting the industrial structure, and combining the two organically. This involves a number of major policy decisions. We should take them very seriously and handle them properly.

Maintain an appropriate growth rate. To keep the national economy developing on an even keel, we need to slow down industrial growth appropriately. But we should not do so across the board. Our major problem right now is not excess production, but material shortages, not an excess of aggregate supply over aggregate demand, but the other way round. There is an acute need to develop the economy and increase supplies. Yet our agriculture is backward, we are acutely short of raw materials, and our light industry is developing slowly, with little coordination with heavy industry. A number of capital projects have been undertaken in a haphazard way. In the adjustment period, therefore, we must put to use the lesson we have learned in the past—do what has to be done and stop or scrap what has to be stopped or scrapped, quickly if necessary. There is absolutely no room for indecision or vacillation. No doubt this will have an impact on the short-term growth rate. On the other hand, we cannot ignore the fact that regional differences do exist and pursue fast growth in a thoughtless attempt to outdo one another. We should try to arrive at a consensus on this matter. We should combine short-term interests with long-term development organically, maintain a suitable growth rate, and opt for sustained, stable, and coordinated development.

Make the development of primary industries a priority. "Concentrate on developing the central Shaanxi plain and assiduously open up the northern and southern parts of the province" in order to transform the lopsided economy more effectively. The present situation is this. Shaanxi's primary industry and infrastructure are underdeveloped. For instance, processing industries account for about 85 percent of the province's gross value of industrial output. Shaanxi imports from other provinces or abroad over 80 percent of its steel, over 95 percent of its petroleum products, over 75 percent of its cotton, about 50 percent of its timber, and many other raw materials. If this excessive resource dependency continues, the strengths and potential of the province's processing industries will not be tapped to the full. At a time when we are reforming and opening to the outside world, when science and technology is advancing, when the market is active and competition keen, it is no longer possible to establish a so-called "independent industrial

system" in each locality or to take the "small and comprehensive" and "large and comprehensive" approach. Yet faced with the reality of the lopsided economy, we have no choice but to come up with a way to eliminate our "short leg." In the past few years, we have been hard at work developing the Shenfu coal-field and the Yanan oil-field, building the Hanzhong steel complex, putting up a host of thermal power stations, expanding the production of chemical industrial raw materials and chemical fertilizers, linking Baotou and Ankang by rail, speeding up the construction of Xianyang Airport, and drawing up plans to utilize the water resources of the Huang He and Han Jiang. The purpose of all this is none other than to readjust resource allocation with emphasis on processing industries, which will do much to boost economic development in the province. To a large extent, a breakthrough in the processing sector in the central plain is conditional upon the exploitation of the resources in the northern and southern mountains. In turn, these resources cannot be tapped without a helping hand from the developed central plain. The two must be developed in a coordinated and mutually beneficial way in accordance with a long-range plan and set priorities. In addition, we must not overlook horizontal economic cooperation. Through horizontal economic cooperation, many coastal provinces and municipalities have set up raw material supply bases in the interior and overseas, an experience we would do well to emulate. In short, a lot must be done before Shaanxi's economy takes off. In any case, we must pay attention to agriculture, the base of the nation's economy, make primary industry a priority, and speed up infrastructural development.

Optimize the industrial structure. A major direction in industrial structural adjustment is the development of technology-intensive and high tech industries to make use of our robust scientific and technical resources and put education on a sound footing, on the one hand, and ease the raw material shortages, on the other, which is of particular significance in a place like Shaanxi which is chronically short of raw materials. In conjunction with industrial structural adjustment, we should also make a major effort to develop groups of enterprises and corporations suited to social mass production. In particular, we should set up a number of corporations and multinational companies that are oriented to the world. With a few large enterprises as their backbone while relying on thousands of small and mid-sized concerns, these companies and corporations should turn out prestigious and high-quality products. In fact we have taken the first step toward realizing this goal: In the course of reform and opening to the outside world, many large and mid-sized enterprises have vigorously introduced advanced foreign technology, expedited new product development, and improved their standards of production technology and competitiveness, thus laying the foundation for the entry of more Shaanxi products into the international market sooner. We should ensure healthy economic development and the successful realization of our strategic objectives province-wide with an optimized industrial structure, a sound economic setup, and a dynamic developmental mechanism. Moreover, we should pave the way for full-scale industrialization and the commercialization, socialization, and modernization of production in the next century.

FINANCIAL, BANKING

Economic Reform Errors Attributed to Financial Policy Mistakes

40060209 Beijing JINGJIXUE ZHOUBAO in Chinese 4 Dec 88 p 4

[Article by He Xin 0149 2450: "An Analysis of the Causes of Errors in Recent Economic Reforms on the Basis of Worsening Inflation"]

[Text] *"When the increase of money supply exceeds the increase of products, inflation will inevitably occur, and the faster the amount of money supplied per unit of product increases, the higher the infation rate will be."—Friedman.*

The Mistakes of Financial and Monetary Policies

On the issue of what causes the expansion of aggregate demand, Western economists are divided into two schools of thoughts. One school believes that the expansion of aggregate demand could be caused by an increase in any component of aggregate demand. Because of this, when social production reaches the stage of full employment or the bottleneck of supply, any expansion of consumption, investment, or government expenditure or any expansion of foreign trade would result in demand-generated inflation. The other school's theory is that the fundamental factor of the expansion of aggregate demand is the increase of money supply. Because aggregate demand is the product of the amount of money supply multiplied by the velocity of circulation (AD = MV). If the velocity of circulation remains the same, any increase in the amount of money supply will result in a rise in aggregate demand—namely, inflation. However, when we observed China's economy in the 1980's, we noticed that the cause of China's ever-growing inflation is a combination of the above two reasons. Due to the expansion of consumption, investment, and government expenditures, the expansion of foreign trade, and the policy of seeking quick and instant success in economic development, policymakers have adopted the policy of blindly increasing money supply to stimulate economic development. This policy should be the direct cause of the recent expansion of inflation in China.

I think that in addition to the lack of strategic thinking on the overall goals of economic reform that suits China's actual conditions, the following two major policy mistakes in the Chinese economy of the 1980's are also noteworthy: 1) Ignoring its basic national conditions—limited resources, a poorly developed economy, and limited sources of foreign exchange—China has blindly accepted the "multiplier" theroy of Keynesian

economics, which encourages consumption, trying to use high consumption (= waste) to bring about the development of productive forces. As a matter of fact, even economically developed countries (such as England and the United States) also advocated the Puritan spirit of seeking prosperity through thrift and hard work during the initial period of their industrialization. 2) Misled by misinterpreted Keynesian doctrines, China thought that deficit and inflation policies would work in China, resulting in huge fiscal deficits for several consecutive years and a sharp increase of money supply.

The first aspect was discussed in some of my previous articles. In this article, I will try to focus the discussion on the mistakes of financial and monetary policies adopted since the reform.

We know that the fundamental cause of inflation is excess money supply. Money supply exceeding economic development in China is, however, caused by two things: 1) The consecutive years of huge fiscal deficits have forced financial departments to make overdrafts from banks, causing banks to issue more money. 2) The scale of bank credit has expanded. The combination of the above two reasons has caused the aggregate demand of society for cash payment to substantially exceed the aggregate supply of cash. (Statistics show that the gap between the supply and the demand was 50 billion yuan in 1985 and 74.4 billion yuan in 1986 and is estimated to be 90 billion yuan in 1988.) Under this condition, the increase of overall price level is naturally unavoidable.

China's fiscal deficits in the past decade are shown as follows:

China's Actual Fiscal Deficits and Debts Between 1979 and 1987 (Unit: 100 million yuan)

Year	Actual Fiscal Deficits[1]	Internal Debt	External Debt	Proportion of Deficits in Budgetary Income
1979	205.91	—	35.31	19.3
1980	170.51	—	43.01	16.4
1981	98.58	—	73.08	9.7
1982	113.16	43.83	40.03	10.8
1983	122.91	41.58	37.83	10.5
1984	121.84	42.53	34.81	8.5
1985	68.25	60.61	29.24	3.8
1986	208.85	62.51	75.74	9.8
1987	246.16	62.87	103.00	11.3
1988 [2]	298.00	90.00	123.00	12.7

The above table shows that fiscal deficits have existed for 10 consecutive years since 1979. The proportion of fiscal deficits in budgetary income was over 10 percent for 6 out of 10 years. This explains that the government has been deliberately implementing the deficit budget policy for quite some time. Since 1986, this tendency has become even more serious and the actual fiscal deficits have been over 20 billion yuan every year. It is expected to exceed 30 billion yuan this year.

There are usually two ways to make up fiscal deficits. One is to have the government make coercive overdrafts from banks, which will inevitably force banks to issue more money. The other is to issue government bonds to the public. Some people think that issuing government bonds to make up deficits will not increase money supply. However, a scholar (Dong Dasheng [5516 1129 0524]) pointed out recently that this understanding was incorrect. Purchasing large quantities of government bonds by enterprises may cause the "squeeze effect" of funds. Since bond purchases take up production and investment funds, enterprises' need for loans will be inevitably increased. To buy government bonds, individuals usually use money in their savings which otherwise would become potential purchasing power after being withdrawn temporarily from circulation. However, once such money is absorbed by government bonds, it will become instant cash purchasing power, thus increasing the immediate pressure on the aggregate demand of society. To purchase government bonds, banking departments must issue more money, given that the scale of loans to other social sectors remains the same. Therefore, both bonds and fiscal deficits are practices that have expanded the aggregate demand of society and objective factors that have caused inflation to worsen.

Another cause of the continuous price increase in several consecutive years is excess money supply whereas the fundamental cause of excess money supply is the policy orientation under which policymakers have been eager for quick and instant success in economic construction and failed to carry out reform and construction according to their capability. What is more noteworthy is that this tendency has spread from central to local levels. Not only is the macroeconomic control of the central government ineffective and its financial and monetary policies too relaxed, but many local governments have also refused to act according to their capability in regard to the scale of local capital construction and credit. They have exercised government intervention and ordered banks to lend money for additional local fixed-asset investment. Consequently, on top of the central government's deficit policy, local governments have raised the quota of deficits at each level, thus excessively expanding the scale of capital construction and bank credit throughout the nation, continuously increasing fiscal expenditures at all levels, and resulting in fiscal deficits for several years running. This is so not only in the central and local governments but also in various functional departments of the government. For instance, we all know that educational funds are very scarce in China, far from meeting even the average level of nations where the economy is moderately developed. Education departments have no money for educational investment, but they have money for extravagant construction projects. It was revealed that the investment budget of a high-class sanatorium built by the State Education Committee on the "golden tourist coast" is estimated at 22 million yuan. Other institutions of higher learning and provincial and municipal education bureaus have also misused

educational and scientific research funds to build sanatoriums in scenic spots. Total investment in this category alone is estimated at 1 billion yuan.

The principles of political economics and monetary banking have already explained that if paper money (including bank deposits that can be used for transfers, settlements, and payments) is in circulation, the amount of money needed for circulation depends on the amount of commodities waiting to be circulated. An excessively large scale of bank loans could induce the issuance of large amounts of money. The excess of basic currency supplied by the central bank will be absorbed by specialized banks to form original deposits which will then be issued as credit and produce derived deposits which will be used again to finance other loans, thus forming enless cycles. If specialized banks are allowed to issue more loans as bank deposits increase while there is a great demand for loans in society, it is possible that banks may expand derived deposits beyond the limit that could be tolerated by basic currency and money multiplier. At this time, there will be too much money in circulation and the occurrence of inflation will become unavoidable.

We cannot say that the central bank does not understand the mechanism about excess money supply causing inflation. But because of the following reasons the central bank cannot control the amount of money supply according to the economic law: 1) The central bank must follow government orders. Banks' monetary policies are seriously affected by the government's short-term economic behavior, and banks are to supply as much money as needed by the government in pursuing the high rate of economic growth. Similarily, local governments often force local banks to grant loans for projects which they like to invest in despite their poor economic returns. (Local banks have to obey local governments because the latter controls personnel matters concerning the presidents of local banks). 2) Banks' monetary affairs are restricted by state financial departments. State financial departments can wilfully change the proportion of bank profits to be delivered to the state and transfer bank funds without having to pay any charge, forcing banks to issue more money each year to make up fiscal deficits. 3) Though separated from the central bank in name, specialized banks have not been really incorporated. Since the central bank's duty is to guarantee the supply of funds to specialized banks, the central bank cannot avoid being restricted by the amount of credit issued by specialized banks.

Some people thought that price increases were caused by the overextended scale of fixed-asset investment, the expansion of consumption funds, the overheated growth of purchasing power of social groups. But investment and consumption demands cannot expand without the guarantee of funds provided by a large amount of money supply. They will remain as potential demands and will never be materialized. Therefore, in this sense, it is justified to say that the inability of banks to function as an independent economic regulator in China's economy is one of the major causes of the mistakes and even failures of market-oriented economic reform in the past 10 years.

According to the theory of currency circulation, if the velocity of currency circulation remains the same, the rational increase rate of money supply should be the product of the economic growth rate multiplied by the planned increase rate of prices. Statistics show that between 1979 and late 1986, the amount of currency in circulation increased 4.75 fold, averaging 24.4 percent a year; the gross value of industrial and agricultural output increased 1.44 fold, averaging 11.8 percent a year; and the general indexes of national retail prices increased 35.8 percent, averaging 3.9 percent a year. The increase rate of currency in circulation is much higher than 73 percent, the product of the increase rate of the gross value of industrial and agricultural ouput multiplied by the increase rate of national retail prices.

Let us look at different periods. Between 1979 and late 1983, money circulation increased 149.9 percent, an average annual increase of 20.1 percent or 6.355 billion yuan. Since 1984, money supply has continued to increase by three digits. In 1984, the net issue of money was 26.233 billion yuan, an increase of 49.5 percent over the previous year; in 1985, it was 19.572 billion yuan, an increase of 24.7 percent over the previous year; in 1986, there was another substantial increase. During the 1983-86 period, money circulation increased about 130 percent, averaging 32 percent a year, which is about 12 percent higher than the average increase rate of the 1979-83 period and 7.6 percent higher than that of the 1979-86 period. During the 1983-86 period, the gross value of national industrial and agricultural output increased 47.1 percent and the general indexes of national retail prices increased 18.6 percent; the product of these two figures is 74.4 percent. The difference between this product and the increase rate of money supply during the same period is 31.8 percent, which is smaller than that in the 1979-86 period but still shows a continuous rise from the previous high level. Between 1984 and late 1986, the average annual increase rate of money circulation was 32 percent, much higher than the 13.7 percent in the gross value of industrial and agricultural output and the 5.9 percent in price indexes.

During a period of only 2 months between New Year's Eve and the eve of Spring Festival in 1985, about 10 billion yuan of additional paper money was issued. Although the problem was caused by the loss of control over consumption funds, the total increase of money circulation has been at three digits ever since. The amount of cash issued has exceeded its plan every year. In 1984, China planned to issue 8 billion yuan but actually issued 26.2 billion, 227.5 percent over the plan. In 1985 China planned to issue 15 billion yuan but actually issued 18.65 billion yuan, 24.36 percent over the plan. In 1986, China planned to issue 18 billion yuan but actually issued 23 billion yuan, 27.78 percent over the plan.

In recent years, the increase rates of capital construction and consumption funds have been much higher than the increase rate of national income in China. During the 1980-1987 period, the progressive annual increase rate of national income was only 9.5 percent while that of the total amount of social fixed-asset investment reached 24.1 percent. Of which, the progressive annual increase rate of fixed-asset bank loans was as high as 56.7 percent. From 1981 to 1984, cash expenditures on workers' wage and bonus increased by an average of 21.4 percent a year. The balance of bank loans borrowed by state financial departments over the years has reached 51.5 billion yuan. Fiscal deficits and the difference between national income and accumulation plus consumption have been made up by issuing excess money through banks. During the 1980-87 period, the progressive annual increase rate of market money supply was as high as 22.8 percent and the aggregate demand of society outstripped the aggregate supply, inevitably resulting in price hikes and the devaluation of paper money.

Domestic prices are still controlled by administrative and other system-oriented factors and not completely decontrolled to be determined by market supply and demand. Because of this, China has managed with great difficulty to keep inflation at a fairly low level before 1988, turning part of the inflation to hidden, suppressive inflation through administrative powers and causing the purchasing power of social groups and the savings deposits of urban and rural areas to continue to increase more rapidly. Had prices been completely decontrolled, it is estimated that the average annual inflation rate of the 1979-86 period would have been over 10.54 to 17 percent, not 3.56 percent. The inflation rate of the 1984-86 period would have been even higher. It would not have been lower than 7.3 percent in 1987. The increase rate of the first half of 1988 would also have been much higher than the current 13 percent.

As money supply continued to increase, the velocity of money circulation decreased. In economic analysis, the velocity of money circulation may be used as a reference in the observation of suppressive inflation. According to the calculation, during the 1952-84 period, the velocity of China's cash circulation decreased on an average of 2.7 percent a year. Since 1979, along with the increase of banks' excess money supply, the velocity of cash circulation has decreased on an average of 9 percent a year. This shows that as the aggregate demand of society expands and inflation worsens continuously, suppressive inflation is also expanding as each day goes by.

From the analysis of the above statistics, we can see clearly that since the economic reform, especially 1984, China's financial, budgetary, monetary, and credit policies have been inflationary and expansion-oriented. This tendency is getting worse as China pursues a high growth rate. An expression of this policy in the variables of currency shows that the increase rate of money supply is much higher than the growth rate of the economy.

Considering such factors as economic monetization and idling money, since 1979, actual money supply has far exceeded necessary demand for money. Especially since 1986, the growing difference between the two has been most conspicuous, even greater than the year 1984 when the economy was overheated. This explains why China's inflation situation has rapidly deteriorated since 1986.

In sum, issuing more money than is needed in economic operations has materialized the expansion of aggregate social demand in the form of currency. Namely, excess money supply has caused the current expansion of aggregate social demand. In other words, under the condition of abovementioned inflationary financial, monetary, and credit policies, China's currency policy cannot be anything else but inflationary. Based on these discussions, we believe that inflation is actually the inevitable outcome of the overheated economic policy implemented in the past few years.

Footnotes:

1. Net deficits, calculated by deducting internal and external debt incomes and expenditures from fiscal incomes.

2. Figures from the draft budget, in which internal debt is considered only as treasury bond income.

FOREIGN TRADE, INVESTMENT

Nankai University Economists on Country's Coastal Development

40060175 Shanghai SHIJIE JINGJI DAOBAO in Chinese 5 Dec 88 p 12

[By Chen Longguang 3008 7127 0342]

[Text] **Reporter:** All of those present today are well-known economists and economic activists. We are taking advantage of the opportunity afforded by the coastal urban development region's first conference on economic theory to ask all of you to hold a panel discussion devoted to the issue of reform, development, and growth. I hope that all of you can discuss your views for the readers of the paper.

Professor Teng Weicao [3326 4850 5679] (formerly President of Nankai University, currently consultant to the United Nations' Transnational Corporation Committee):

I will talk a little about the issues of industrial structure transfer and development. The distinguishing feature of the present transfer is that it is a multiple-level transfer abroad which, in addition to high tech, involves services and the old, traditional industries, and is taking place primarily in the Asian-Pacific region. China has set forth the coastal region strategy, but I don't agree with the "last bus" concept, according to which the opportunity is fleeting and if we miss this bus we will never be able to catch up with it. This transfer is long-term and carried

out on multiple levels. With the continuous development of the technological revolution, developed nations must carry out regulation internationally, and China's defect is that it is impatient to achieve quick results in a single stroke. Industrial structure transfer is an issue in which there is an opportunity to be seized, and we should not let go of the present opportunity, but neither should we view the issue as being so urgent. China has its own national conditions and its domestic industrial structure is unbalanced, and until the domestic economy is straightened out it is liable to adversely affect opening up to the outside world. Under these conditions, it is even less possible to be overanxious to achieve quick results in the issue of coastal strategy.

When Comrade Zi Yang [4793 7122] discussed the issues of industrial structure transfer and coastal strategy, he stated that we should bring into play the strength of our labor-intensive enterprises. However, it is not the case that we can only develop those labor-intensive enterprises with low levels of technology, as some have stated. If we developed these first, our technological level would rise, and problems would also be likely to develop in exporting.

There is also a problem with respect to township enterprises. Guangdong Province has some township enterprises which are not bad; some are even quite good. However, looking at the nation as a whole, this is not at all the case. Township enterprises like some in Hebei Province are lacking methodology and can be said to be born in the morning and die in the evening. The technological level of some is very low, to say nothing of their technological information. Township enterprises certainly have advantages which state-run enterprises do not have, but they also have very serious weaknesses. China's state-run enterprises already have a very good foundation, and we should vigorously transform and develop them. If we abandon this in favor of something else, we cannot necessarily obtained the imagined results.

We should also develop heavy industry. With respect to iron and steel, for example, it is not enough to rely merely on the present several tens of millions of tons. Developing the auto manufacturing industry requires a large amount of steel. There is also a considerable foundation for China's high technology, with respect to such technologies as optical fibers, medical apparatus and instruments, and precision instruments, and Tianjin, Beijing, and the Zhejiang region all have great technological strength. The export of a single high tech product can equal a shipful of light industrial and textile products, and we cannot overemphasize labor-intensive enterprises. Agriculture and industry should also be put in their proper places. In a large nation like China, industrial structure policy should be considered from the standpoint of the nation as a whole.

Professor Chen Yuefu [7115 6885 0479] (Assistant Chairman of the International Economics Department of Nankai University):

The international climate of the Asian-Pacific region in the 1980's is not what it was in the 1960's and 1970's. The development of the "four little dragons" depended on the transfer of the 1960's and 1970's. There is a lack of grounds for stating that transfer is still occurring in the 1980's. Throughout the 1980's, the labor-intensive advantage has been disappearing. Unless this is realized, development of high technology is liable to slacken.

Multiple levels have long existed as distinguishing features of industrial structure. This forms a basis for our formulation of an Asian-Pacific regional strategy. In this way, we can avoid one-sidedness. Rash attempts to resolve issues in a single stroke are due to an inadequate understanding of these multiple levels. We may use multiple levels to deal with multiple levels. Especially in the case of a large nation like China, our present conditions are by no means inferior to those at the time of the takeoff of the "four little dragons." However, our international competitiveness is poor. High technology, traditional industries, and labor-intensive enterprises should all be used by us, but we should set them up using different focal points, based on regional disparity. For example, Shanghai and Guangzhou should take high technology as their basis, middle-sized cities should take traditional industries as their basis, and small cities and towns should take labor-intensive enterprises as their basis. Since opening was initiated in 1979, "one-stroke" methods have consistently been unable to resolve the problem. In shifting to multiple-level development, we must also change preferential policies which are preferential only to regions and not to industries. Regional preferentiality does not favor domestic development, and earned profits are all taken away by foreigners. Preferentiality to industries is currently very inadequate, and preferentiality to new industries represents only a 5 percent difference.

Industrial structural adjustment has often overlooked the issue of an exports guiding market development. Looking at Shenzhen and the Pearl River delta, the Pearl River has not stressed taking processing industry as its basis, but rather uses Hong Kong as its market. There is a strong consciousness of opening up the market, and with exports as guide, better returns are obtained. I do not mean that we should not develop the processing industry. By paying attention to taking exports as guide, industry will also naturally rise. The examples of such nations as Brazil proves that using trade to promote industry is successful. Qingdao, rather than establishing a tourism development region, established the Huangshan development region; investment is heavy, and returns are unlikely to increase very rapidly.

Structural adjustment of foreign trade should meet the needs of our situation. Japan's general trading companies have found an approach, based on the special

characteristics of Asia, through which it can both open up markets and import raw materials. South Korea, too, has obtained outstanding results by imitating these general trading companies. It is not enough for us to use monopolistic methods to open markets. It is harmful to allow enterprises to charge forth alone. Hong Kong's Trade Development Bureau is a semi-official, semi-commercial organization. It has played a very important role in opening markets. The Guangzhou Export Commodities Fair was a form of trade used to oppose blockade in the 1950's. Today, the China Council for the Promotion of International Trade still primarily uses the Guangzhou Export Commodities Fair, and no longer meets the needs of the new situation.

The propaganda of the central authorities and the localities should be handled properly. In the past, they always went to Shenzhen to discuss trade. Ordinarily, the central authorities have the greatest capability for negotiating on high technology, and to allow localities to negotiate on high technology is to put the cart before the horse. High technology should be handled by central departments, rather than being delegated to the localities. There should be an appropriate division of labor between the central authorities and the localities; only in this way can development be accelerated to some extent.

Professor Xiong Xingmei [3574 1840 5019] (Deputy Director of the Nankai University International Economics Research Institute):

Industrial structure transfer is three-dimensional; it is not merely labor-intensive. The meaning of "labor-intensive" is also constantly changing. What is currently called "labor-intensive" was previously called "technology-intensive." The transfer of industrial structure should be deliberated over a long period of time.

Large volumes of imports and exports are conditioned on one another. Unless a large volume of exports can be achieved, large-volume imports, too, will be merely temporary. We are unlike the Soviet Union in that we do not have a large amount of gold. Therefore, we must steadily use our exports. We cannot have a recurrence of our unhealthy hunger for export exchange, as if the more exports the better. We cannot export all of the goods in short supply in China. The crux of the question is: what is beneficial to export? In the previous period, petroleum accounted for a very large proportion of exports. Now, however, petroleum prices have fallen, and they cannot rise again to $20 per barrel, to say nothing of $30. China's lathes are considered pretty good internationally, but since their after-sales service is poor, they cannot surpass Brazil. China's hardware has long manifested great competitive potential, but since its technology cannot advance, it has always been hard to expand the market. These problems cannot be resolved through foreign trade alone; they involve problems in the internal system. Based on surveys of a number of factories, it can be said of the "soft" and "hard" aspects of the climate that the "soft" aspects are not soft and the "hard" aspects are not hard.

Professor Gu Shutang [6253 2579 1016] (Director of the Nankai University Economics Institute):

Today I would like to discuss three problems. The first problem is that impatience for quick results has always existed to varying degrees during the 10 years of opening up to the outside world. Overheated investment and consumption are both part of overheated demand, and this is related to policy-making. Our system has had an overdriven psychology all along, since the day of its birth. It is the impatience for quick results which is reflected in policy-making. Overheating had already appeared in 1984; it was controlled for a while, but it was not halted, and it has continued to develop to this day. This time, the leadership's estimates are somewhat more adequate. The target originally set forth was to basically complete reform within ten years. Ten years have already elapsed and transfer has not yet been completed. It appears very difficult to meet the demand for establishing a new system by 1990. In a large nation like China, it is impossible to achieve reform in a short time. Without adequate preparation, conflicts and mutual counteraction would inevitably occur.

The second problem is that there should be overall coordination of the three areas of reform, development, and growth. During the past 10 years they have basically been implemented individually. During that time, ideological understanding was inadequate and could only be individual. From now on, this kind of implementation is no longer acceptable. Because of the lack of coordination, the results conflict with one another. On the one hand, large-scale revenue-sharing is implemented, while on the other hand the market must be unified. This is brought about by a lack of coordination. To further use the example of the price reform issue, it is because of a lack of coordination that this reform could not appear in a timely manner. The old system obstructs the construction of development regions, and if improperly handled, the old system may be introduced into the development regions. Economic reform and political system reform should also be coordinated. The time has come that we must formulate a mid- to long-range program. What is needed now is the systematic program of overall coordination.

The third problem is how to combine theory and practice. Some believe that it is best to discuss theory less, and to start implementation first before talking about it. But if problems arise after implementation has been conducted for a while, it is necessary to sit down and review the situation. If theoretical improvements are made, these are of great significance as a guide for practice. There are currently several problems which await resolution:

—The contradiction between the state ownership system and the development of a commodity economy. The separation of two authorities and the shareholding system have already been set forth; which of these is best suited to developing a commodity?

—How should the relationship between growth and reform be arranged? Some believe that reform should have a relaxed climate; that is, it should not be overheated. Others believe that reform is impossible without growth.

—The relationship between planning and the market.

—What proportion of China's national economy should be accounted for by externally-oriented economy? Is it true that the more foreign trade the better? Are there quantitative limits?

—The relationship between coastal opening and the interior. How must resources be deployed in order to produce optimum results?

—The relationship between the central authorities and the localities.

The current pressing problem is that while theory should be in the vanguard, the present reality is that theory lags behind.

Coal Exports in 1988 Projected at 16 Million Tons

40060202a Beijing GUOJI SHANGBAO in Chinese 27 Dec 88 p 2

[By correspondent Yi Fan 0001 0416: "Coal Exports This Year to Reach 16 Million Tons; Increasingly Active Imports and Exports of Coal Production Equipment"]

[Text] In spite of rising domestic demands for coal, insufficient railway transport facilities, and the failure of the Pingshuo coal mine to achieve its plan output, factors which affected China's coal exports and left it below plan norm, it was still 23 percent over last year's volume.

From the beginning of this year, the continued excessively strong upsurge in China's industrial production and the many new enterprises going into production have created a shortage of domestic coal supplies. To ensure coal supplies to power stations, some coal export contracts could not be fulfilled in time.

Through the efforts of the China National Coal Import-Export Corporation, which is responsible for all coal import and export business, and with the active cooperation from the railway and communications departments, there has been an improvement in the movement of export coal, as from the third quarter of this year on. At Qinhuangdao, the port which handles the major volume of coal exports, detention of ships has become less extended. It is hoped that total coal exports will reach 16 million tons up to the end of the year.

While the China National Coal Import-Export Corporation is making every effort to fulfill its coal export obligations, it is also actively promoting the export of coal mining machinery and equipment manufactured in China of large, medium, and small dimensions. The 42 hydraulic trestles exported last year to the United States users found after one year's trial to be functionally modern, of excellent quality, and meeting well the demands of production. A short time ago, acceptance agreements were signed with the Chinese party.

There has also been an increase in the amount of foreign capital used by the Chinese coal mining industry in sinking new large mining shafts. Foreign capital used this year reached almost $50 million, which was of certain significance in expanding installations of the coal mining industry and in importing advanced technologies and equipment.

We understand that an agreement has been signed to provide a Japanese energy resources loan of $800 million for use at the Jungar open pit mine located in the Inner Monggol Autonomous Region; the first instalment of the loan will be forthcoming this year. To be in charge of this huge project, a Jungar Coal Industry Corporation has been set up and has started external operations with the approval of the China National Coal Import-Export Corporation.

The Changcun mining project in Shanxi, which is operated with a loan from the World Bank, has already signed contracts for over 100 items of equipment, which is being acquired through open bidding. Most of the equipment has been shipped to the mining area, and some of it is already in place and in operation, ensuring a smooth progress in the mining shaft construction.

The China National Coal Import-Export Corporation has, furthermore, organized the basic construction departments of China's coal mining industry for participation in international competition. In international bidding for the Jerada coal mine in Morocco, they were successful against 13 companies from 8 countries with their $8.65 million bid and promise to complete construction in 2 ½ year; a shaft sinking contract has already been signed with Morocco. They also signed an agreementt with the Jiatai Mining Corporation of the Philippines for the joint development of the Polillo coal mine. At the same time, technological exchanges and joint execution of projects between China and the United States, Japan, and some European countries with advanced coal mining technologies have increased.

Inner Mongolia Overfulfills Export Target

SK2501075189 Hohhot NEIMENGGU RIBAO in Chinese 1 Jan 89 p 1

[Excerpt] In 1988, the Inner Mongolia Autonomous Region made steady progress in earning foreign exchange through export. By mid-December, the region

created $237.06 million in foreign exchange through export, overfulfilling the state-set target by 44.35 percent, or showing a 21-percent increase over the corresponding period last year. It is expected that the volume of cash trade and barter trade will amount to $280 million, overfulfilling the state-set target by 74.5 percent, or overfulfilling the region-demanded target by 12 percent. [passage omitted]

Update on Liaoning's Foreign Trade
40060202b Shenyang LIAONING RIBAO in Chinese 8 Dec 88 p 1

[By reporter Cui Weiwei 1508 1550 1559: "Outstanding Progress in Liaoning's Opening Up to the Outside World; Increased Foreign Exchange Earnings From Exports of Local Products, Increased Foreign Investments, $3.354 Billion Exports During First 10 Months of This Year, 7 Percent Over the Corresponding Period of Last Year"]

[Text] Outstanding progress has been made by Liaoning Province in its opening up to the outside world. During the first 10 months of this year, total exports have achieved $3.354 billion, an increase of 7 percent over the corresponding period of last year. Aside from petroleum products, exports of local commodities achieved $1.642 billion, an increase of 31.4 percent over the corresponding period of last year. Throughout the province, 426 contracts were signed for the use of foreign capital and for the importation of technologies, to the total amount of $1.26 billion. Of these, 348 were contracts for foreign capital investment to the total amount of $1.147 billion, an increase of 117 percent, and 78 contracts were for the importation of technologies to the total amount of $117 million, an increase of 173 percent over the corresponding period of last year.

Overall, the following are special characteristics of the situation, as Liaoning Province is opening up to the outside world. In its exports, local commodities show more foreign exchange earning power, increase more rapidly, and have resulted in an improvement of foreign exchange earnings, which still exceeded those of last year, despite the decline in petroleum product exports. Commodities with high added worth, such as machinery, equipment, electronics, etc., exceeded by far the general export growth rate. The local foreign trade (industrial and trading) corporations and enterprises of three capital sources are showing faster progress in foreign exchange earnings from exports. When foreign capital was used for the importation of technologies, the large majority of such cases involved items that would produce for export and that would earn foreign exchange. The amount of funds involved in contracts that used government loans has doubled compared to last year. Direct investments by foreign firms have conspicuously increased. Constructions and starting of operations in cases of foreign investments and foreign financed enterprises have been accelerated. By now, the number of enterprises with the three types of foreign investments that have actually started production has reached 168. Their products this year are valued at 430 million yuan. They have had profits of 50 million yuan and paid 25 million yuan in taxes.

To establish long-term solid bases as sources for export goods, Liaoning Province, in the course of the reform, exerted great efforts to develop factories specializing in the production of export commodities and bases for such production, to develop sources of goods that sell well. Up to now, 312 special export factories and bases have been established throughout the province. The province has, furthermore, approved a group of production enterprises to enjoy the right of self-management of their foreign trade. By a method of bringing industry (agriculture) and trade together, the provincial government has achieved an integration of all production and marketing of export commodities.

A person with a leading position in this field expressed the opinion that effective regulation and rectification of the economic environment will have no ill effect on Liaoning's economic and technological cooperation with foreign parties. He said that it is necessary during rectification to give due attention to the relationship between centralized control and delegation of authority. Things that deserve to be centrally controlled, must indeed be controlled, but where decontrol is more reasonable, and also beneficial in evoking enthusiasm at the grassroots level, we must continue to maintain decontrol. Merely for the sake of rectification, one must not resume controls of things that have rightfully been decontrolled. For next year, the focal points in the use of foreign capital must be to have the old established enterprises directly link up with foreign firms in joint ventures. The principle of "one plant with two systems" is an important method of using foreign capital. We must shift the focal point from starting up enterprises of three capital sources to having the old established enterprises engage in joint ventures.

Shaanxi's 'Window' in Hong Kong
40060202d Xian SHAANXI RIBAO in Chinese 9 Dec 88 p 2

[By correspondent Dai Chao 2071 6389: "Shaanxi's 'Window' in Hong Kong—Interview With General Manager of Lishan Co., Ltd."]

[Text] A few days ago, at the Second Shaanxi Trade Talk, this reporter interviewed Li Linggeng [2621 0109 1649], director and general manager of the Lishan Company, Ltd. of Hong Kong. The Lishan Company was established in Hong Kong by Shaanxi Province as its foreign economic relations and trade organization, set up in August of 1985. During the somewhat over 3 years of its existence, the above-mentioned company has energetically initiated import and export business as well as real estate investments. After readjustment of its leadership team this spring, the company expanded the scope of its business operations; its profits this year could be 10

times those of last year. General manager Li Linggang expressed the purpose of his company as: "Maintain a firm foothold in Hong Kong, be tied up with Shaanxi, orient toward the world." This means, the company will utilize the favorable conditions prevailing in Hong Kong, import for the needs of Shaanxi Province, make every effort to promote Shaanxi's exports, and give best service to Shaanxi's foreign economic relations and trade. The company will be window, bridge, and connection for Shaanxi's opening up to the outside world and for its economic development.

Opening a Window, Transmitting Information

Because of its unequaled favorable conditions, Hong Kong has by now developed into an international center of finance, trade, aviation, information, and tourism. After the signing of the Sino-British Agreement, the overall situation in Hong Kong is very good, and economic progress is rapid. To transmit to Shaanxi Province the various items of information on world economic trends, the situation on the international markets, trading conditions, industrial investments, technological transfers, etc., the Lishan Company specially issues a weekly periodical, XIANGGANG XINXI, which is sent to all relevant departments and units in the province. Last year, a unit in Shaanxi Province signed a contract with a foreign firm for shipment of asphalt. Before shipment, the Lishan Company sent back latest market information, on the basis of which negotiations were immediately taken up with the foreign firm, resulting in the reduction in price by $16 per ton. This saved $100,000 of foreign exchange. Recently, the Lishan Company promptly informed the province of the conditions of trade between Taiwan and the mainland and thus gave impetus to starting trade with Taiwan.

Import Foreign Capital, Initiate New Industries

In recent years, the Lishan Company has made energetic efforts to import capital from Hong Kong, from overseas Chinese, and through bank loans, acting as go-between and bridge for Shaanxi enterprises in their attempts to initiate joint ventures and expand production of export goods. They set up a polyester fiber factory as a joint venture with the Northwest State Cotton Textile Mill No 7. The total investment amounted to $4 million, and as per contracts the total production will be exported. For the State Cotton Textile Mill No 3, they imported $2.65 million capital to import 60 "arrow-shaft" looms. For the State Cotton Textile Mill No 8, they provided a combined "slasher and dyeing machine" and preshrinking equipment to produce denim cloth for export, valued at $480,000. At present, discussions are going on with the Baoji Electrolytic Manganese Plant, with the Hanjiang Iron and Steel Mill, the Steel Research Institute, Shaanxi Cotton Textile Mill No 10, Shaanxi Woolen Mill No 1, and the Haohua Furniture Factory regarding possible cooperative projects. The Lishan Company is making great effort to attract foreign capital for these factories, to enhance their production and exporting capacity.

Develop Foreign Trade, Open Up the International Market

To develop Shaanxi's foreign trade, the Lishan Company, with Hong Kong as its base, energetically opened up overseas markets. Consecutively, they initiated in Hong Kong and overseas joint ventures with foreign firms and set up [figure illegible] subsidiary companies. In the United States and in Australia they started two trading companies, to take full advantage of the other side's superior managerial experiences and multiple marketing channels, also to open up international marketing channels for the export goods of Shaanxi Province. For the Northwest (Australia) Enterprise Company Ltd., jointly started with Melbourne, Australia, they started a stock farm, to raise local high quality sheep, also to produce superfine wool, which would be sent back to Shaanxi to be manufactured into high quality woollen yarn, which would then again be exported and sold to Australia. At the same time, some high quality sheep and sheep raising techniques would be introduced to China to improve the domestic stock in Shaanxi Province. Furthermore, the said country's wool is being imported, while finished woollen products, mechanical and electrical products, food and edible oil are being sold to them. Cooperation by mutual infusion of share capital is being carried out with the Eastern Resources Company of Los Angeles in the United States, the American side to provide samples of goods and the necessary technology, while the Chinese side will on trial process the goods in question, which will then again be marketed abroad.

Results of Shaanxi Second International Trade Talks

40060202c Xian SHAANXI RIBAO in Chinese 9 Dec 88 p 1

[By correspondents Yue Anmin 1471 1344 3046 and Zhou Fu 0719 4395: "Outstanding Results Achieved at the Shaanxi Second International Trade Talks on Economic and Technological Cooperation—42 Foreign Investment Contracts Signed, Could Introduce $67.76 Million Foreign Capital Investments; 150 Other Contracts Amount to Over $63 Million"]

[Text] Correspondents learned the following at the news conference of the provincial trade talks that outstanding results have been achieved since the Shaanxi Second International Trade Talks started on 1 December.

The 42 foreign investment contracts so far signed could introduce $67.76 million foreign capital investments. Thirty-two preliminary agreements, if fully transacted, could bring in $106.2 million foreign capital investments. Nine letters of intent were signed. Twenty-one

contracts signed for processing of imported materials, processing according to imported specimens, and for the assembly of imported parts could yield $7 million in labor charges. Four contracts signed for labor exports and construction projects could yield $990,000 in labor charges. Nineteen contracts were signed for the importation of advanced technologies and equipment, involving transactions worth $20.07 million. Another 106 export trade contracts were signed, involving transactions amounting to $35.15 million. At the same time, barter agreements concluded with the Soviet Union had an export value of $28 million.

The present trade talks attracted the interest and attention of foreign firms of many countries and territories. Over 320 foreign businessmen, or representatives of foreign firms stationed in China, responded to the invitation, or came to gain information, and participated at the trade talks. They had come from 25 countries and territories, including Japan, the United States, Italy, Belgium, the United Kingdom, Australia, the FRG, Singapore, Thailand, Finland, the Netherlands, the Soviet Union, Yugoslavia, France, Switzerland, Norway, Denmark, Spain, Canada, India, Pakistan, Ghana, Hong Kong, Macao, and Taiwan.

Main reason for the outstanding success of the present trade talks was the unswerving implementation by the provincial party committee and the provincial government of the Central Committee's policy of reform and opening up to the outside world. They did so by further improving the investment climate in Shaanxi Province and by earnestly putting into effect the various state policies on favorable treatment for foreign investors, which enhanced the attractiveness for the foreign firms to invest in Shaanxi Province. According to the state's spirit of effective management of the economic environment, of rectifying the economic order, and of retrenching investments in fixed assets, the present trade talks exercised a strict control over nonproductive projects. The talks rather placed emphasis on the technological transformation of presently extant industrial enterprises and the use, as far as possible, of presently extant factory buildings, equipment, and factory grounds, with joint investment of foreign capital. This greatly reduced the need for supplementary capital from domestic sources. Projects of this kind brought up at the trade talks were all essentially projects to produce commodities for export that would earn foreign exchange and products for import substitution. A further demand was that the projects should by themselves achieve a balance of receipts and expenditure, some are still off in both respects, as there are large import and large export projects. In the selection of items, preference was given to those that would have greatest impact on the economic development of Shaanxi's national economy, such as mechanical and electrical goods and goods of the textile, or the raw and semiprocessed materials industries. In the selection of import methods, emphasis was placed on direct investments by foreign firms. During the present trade talks, foreign businessmen were invited to inspect enterprises that reflect the industrial level of Shaanxi Province, in order to deepen understanding among foreign businessmen of the industrial conditions in Shaanxi Province, and raising their confidence for intensified cooperation. Arrangements at the trade talks were rather simple, in this respect implementing the spirit of thrift in the conduct of meetings.

Participating at the news conference of the trade talks were leading comrades of Shaanxi Province and Xian Municipality: Hou Zongbin [0186 1350 6333], Zhang Bin [1728 2430], Lin Jizhou [2651 1323 0719], Chen Ming [7115 2494], Yuan Zhenzhong [5913 2973 0022], also leading comrades of various delegations as well as news reporters. Provincial governor Hou Zongbin delivered a speech in which he said that the trade talks, though not yet even concluded, had resulted in outstanding achievements which exceeded anticipated goals. He demanded of the various delegations at the talks to still firmly set about their tasks, not to relax, and in the case of all projects for which preliminary agreements and letters of intent have been signed to keep directly contacting and negotiating with the foreign firms. Items for which contracts have been signed must be earnestly brought to fruition, show full effect, thus continuously expanding the sphere of cooperation with foreign businessmen abroad.

Article Addresses Question of Renminbi Exchange Rate

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[Article by Liu Mohai 0491 1075 3189 of the Bank of China, Head Office: "The Question of Renminbi Exchange Rate," revised in September 1988]

[Text] Following the reform of the economic structure and the development of opening to the outside world, the exchange rate of the renminbi has been converted from being formerly a simple tool for computation to being an important economic lever. The fixing and readjustment of the exchange rate has daily become people's concern. At present there are generally four different views on the level of the renminbi exchange rate. 1. The belief that the existing exchange rate is a low estimate of the renminbi and that, based on a comparison of the prices of consumer goods in our country with the prices of consumer goods in western countries, the exchange rate should be fixed at the level of $1 equals one renminbi; 2. The belief that the existing exchange rate is a high estimate of the renminbi and that, based on the average exchange of the production cost of our country's current export commodities being higher than the exchange rate, the exchange rate be adjusted to being equivalent, or near, to, the level of the exchange of the production cost, that is, generally $1 equals 5 renminbi; 3. The belief that while the existing exchange rate is a high estimate of the renminbi the role of the upward adjustment of the renminbi exchange rate has reached the limit and that simultaneous with the exchange rate being maintained at

an appropriately high estimate, other substitute policies should be adopted; and 4. The belief that while the high estimate does exist, for the sake of avoiding that adjusting the renminbi exchange rate lower may affect nontrade, a double exchange rate system should be enforced. We call the first viewpoint as the "low estimate theory," and the three other viewpoints as the "high estimate theories."

The causes for these different viewpoints on the rational level of the exchange rate, aside from the differences in the theories, may be traced to the disparity in the angle of their consideration of the problem on the part of the various economic departments. Planning departments principally consider the possibility of fulfilling the import and export plan and the balancing of international payments; financial departments principally consider the burden of subsidizing import and export trade; the foreign trade departments principally consider the fulfillment of the import and export tasks; and the currency management departments principally consider currency trustworthiness and commodity prices. Because the demands on the exchange rate of a stated period being high or low posed by the problems with which the various departments are concerned are usually not always alike, it is unavoidable that on the problem of readjusting the exchange rate the departments have each their own views.

What after all is the objective basis for determining the exchange rate? How should we, based on the value-fixing theory, estimate the renminbi exchange rate? How is the problem of the renminbi exchange rate formed and what is the crux of the problem? How to measure the advantages and disadvantages in making the choice in readjusting the existing renminbi exchange rate? How to basically solve the problem of the renminbi exchange rate? This article will attempt to probe into these problems.

I. Re-examining the Theory

The basic problem to be solved in the basic theory determining the exchange rate is to find the essential, innate, and objective liaison between the basic factors determining the exchange rate and the central value of the exchange rate. To find the essential liaison, we must temporarily leave aside the effects of the factors of supply and demand on the exchange rate; to find the innate and objective liaison, the assumption must be made that international trade is conducted under the conditions of a completely free market economy, with profit-making as the objective. Under such conditions, the important and special feature in international trade is that export price ratio [1] of a commodity is lower than the exchange rate and its import price ratio is higher than the exchange rate.

A. Law of International Value and Basis of Determining Exchange Rate

The basic meaning of international exchange is that the creditors and debtors, by means of the buying, selling, or transfer of international credit instruments to settle their debtor and creditor relations, that it, the export merchant or other creditors sell to the bank in their own country the foreign currency credit testimonials (bill of exchange, drafts, checks and so forth) which they hold while the debtors in that country, when repaying their debts, use a stated amount of currency of the country to buy from the bank this kind of foreign currency credit evidences (foreign exchange); by so doing, the dispersed or scattered creditor and debtor relations are centralized into the debtor and creditor relations of several banks in the two countries and settlement by mutual transfer or off-setting is made possible while at the same time selling and buying of foreign exchange is effected within the two countries. In reality, the buying and selling of foreign exchange is an exchange at a fixed rate of the recurrences of two countries and the rate of exchange of these currencies is the exchange rate. Exchange rate is the product of the conflicting movement between the realization of a commodity's international value and the currency differences between the countries and is the price of the currency of one country in terms of the currency of another country.

The value possessed or actually represented by a currency is the basis for determining its exchange rate. However, in the world market the measurement of a commodity's value is the same quality standard and this same quality standard is the "average unit of world labor," that is, the world average necessary labor time required for producing the same kind of commodity. Here, the essence of exchange at equal value is the exchange at equal quantity of international value (or international production price). Due to the necessary labor time required by production units in different countries in producing the same commodity is different one from the other, there is a disparity in the country value of the various countries. Hence, the common quality between the currencies of various countries cannot be the country value. After a commodity has left the country's boundary, the country value is converted into international value. The international opposing status of currencies also necessarily takes as its basis the international value of the same quality standard, or, it may be said, only through the conversion of the differential country value represented by the currency into the same international value can a comparison be carried out quantitatively. Therefore, the determinant basis of exchange rate is the quantity of international value represented by the currencies of the two countries.

B. Value of Commodities in International Trade and Computation Formula of Exchange Rate

How to measure the quantity of international value represented by a currency? Here, it is neither possible nor necessary to estimate the actual international value represented by a currency—the world average labor unit. We need only to find out the relative size of the quantity of international value represented by two currencies. If only we known the number of currency units of two countries separately represented by the same quantity of

$$4.\ \text{exchange rate} = \frac{\text{international value volume represented by units B country's currency}}{\text{international value volume represented by units A country's currency}} =$$

$$\frac{G/Y}{G/X} = \frac{X}{Y}$$

international value, then we can know the quantity of international value represented by the currency of unit A is equivalent to what quantity of international value represented by the currency of unit B.

The manifestation of international value has passed through different stages of development. Historically, corresponding to exchange with gold being the world currency as the medium and barter trade, the international value of a commodity was first manifested in the following two formulas:

1. N units woollen cloth = G units gold = W units wine;

2. N units woollen cloth = W units wine.

Formula 1 shows that in the international market the international value of commodities in trade is denoted in gold. Inside the country, the value of various kinds of commodities is denoted in the currency of the country. Hence, N units woollen cloth and W units wine may be separately in the amount of prices in the country's currency, such as respectively X units of A country's currency and Y units of B country's currency. Under the gold standard system, there is free exchange between a country's currency, and gold and between the currencies of two countries liaison may be established by means of gold of the same quality. The formula of liaison is as follows:

3. X units of A country's currency (the price volume of N units of woollen cloth) = Y units of B country's currency (price volume of W units of wine).

From Formula 3 it is found that:

The gold content volume (international value volume) of units of A country's currency = G/X gold units.

The gold content volume (international value volume) of units of B country's currency = G/Y gold units.

Hence, the exchange rate may be denoted as follows:

Thus, it can be seen that under the gold standard system, the determinant of the exchange rate is a comparison of the minting cost of currency, and this is entirely unanimous with a comparison of the international value volume represented by the currencies.

Paper notes or currency cannot perform the functions of a world currency and international value also cannot be directly manifested in paper notes. But the amount of international value represented by paper notes can be reflected by the relations between the form of country-wide value and the form of international value. As we know, before an export commodity's entry into the world market, its value is denoted in the currency of the country and price is its manifestation form. At the two ends of the international value formula 2, if they are separately multiplied by the domestic price level of woollen cloth and wine, we obtain two price amounts (separately denoted as a fixed amount of two kinds of currencies). Since the amounts of international value at the two ends of a mathematical equality formula are equal, the differences in the gross amounts of prices and thereby in the amounts of currency are the differences in the amount of interest value represented by the unit paper notes and the amount of international value represented by the unit paper notes is the reciprocal of the corresponding price amounts. Based on this, the exchange ratio of the currencies of the two countries can be computed.

In the above we explained the determination of the exchange rate central value under the conditions of only two kinds of commodities participating in trade. We assumed that the two kinds of commodities were in an exchange at equal value in barter trade and also that the domestic prices of the two commodities were unanimous with their country-wise value. Obviously in actual practices more than two commodities participate in trade while developed international trade is not direct barter trade and so far as certain commodities are concerned the unanimity in price and value is only accidental. Below we suggest a computation pattern for the central value of exchange rate in the absence of the above-mentioned assumptions.

Although in the majority of conditions international trade does not consist of barter trade, yet the result is always that in a stated period a country exports a definite quantity of the country's products and imports a definite quantity of other countries' products and while the price and value of a certain commodity are not unanimous, taking the whole of the import and export commodities into consideration, we may believe that the prices and values are unanimous (including domestic prices and international prices). Let us assume that countries A and

$$e = \sum_{i=1}^{n} P_i X_i \Big/ \sum_{i=1}^{m} P_i^* I_i$$

B take part in trade, that in a stated period (say 1 year) country B exports a definite quantity of n kind of commodities, and that it imports from country A a definite quantity of m kind of commodities. If the imports and exports are balanced (assuming that no debtor or creditor relations occur in the survey period or that there is no off-setting of the two relations), then it implies that country B has used n kind of commodities containing a definite amount of international value in exchange for m kind of commodities possessing the equivalent amount in total of international value. The relative formula is:

5. $[X_1 + X_2 + \ldots X_i + \ldots X_n]p = V = [I_1 + I_2 + \ldots I_i + \ldots I_m]_E$

In the formula, X represents the export volume of B country's number j kind of commodities, I represents the import volume of country B's import volume of the i kind of commodities and V is the gross volume of international value. Multiplying the two ends of formula 5 with the domestic prices (p, p^*) will produce the gross amount of prices denoted in the country's currency:

6. $[p_1X_1+p_2X_2 + \ldots p_iX + \ldots p_nX_n]_n = V = [p_1 * I_1+p_2 * I_2 + \ldots p_1 * I_i + \ldots p_m * I_m]_p$

or

8.

Definition of "exchange rate e" is price of currency of unit country A in terms of currency of country B.

$$7.\ \text{exchange rate} = \frac{\text{amount of international value represented by unit country A's currency}}{\text{amount of international value represented by unit country B's currency}} =$$

$$\frac{1/\text{gross amount of prices of country A's export commodities denoted in country A's currency}}{1/\text{gross amount of prices of country B's export commodities denoted in country B's currency}} =$$

$$\frac{\text{gross amount of prices of country B's export commodities denoted in country B's currency}}{\text{gross amount of prices of country A's export commodities denoted in country A's currency}}$$

Formula 8 above is suggested on the conditions of two countries participating in trade and the trade between them is in equilibrium. As a matter of fact, a country's trade is transacted with many other countries and the chances of an equilibrium in trade in a stated period are accidental. Under such conditions, we can estimate the exchange rate of a country's currency with the key currencies, and on the basis of the price ratio readjust the difference in import and export, [2] so that they are balanced and then, based on the import and export volumes and price level of the two countries concerned, compute the exchange rate. The exchange rate with the currencies of other countries can be directly computed and can also be indirectly computed by conversion means.

It can be seen from formula 8 that the exchange rate of a country's currency not only is determined by the level of commodity prices but also is directly related to the structure and the relative volumes of the import and export commodities.

II. Distinction in the Determinant Mechanisms of Exchange Rate

A survey on the differences in the exchange rate determinant mechanism under different economic systems is extremely important to understanding the crux of the problem of the renminbi exchange rate.

A. Determining the Exchange Rate in a Market Economy and a Planned Economy

Under different economic system, a great disparity exists in the exchange rate determinant mechanism. In a typical market economy, the exchange rate is determined spontaneously by the foreign exchange market; in a planned economy, the exchange rate is fixed by the

currency authorities. There are also differences in the exchange rate determinant factors and the transmission mechanism between the exchange rate levels.

In a market economy, the exchange rate determinant mechanism spontaneously operates around the motive of profitmaking in foreign trade. The relative differences in the price ratios reflecting the differences in the labor productivity rate between countries determine the quantity and structure of the import and export commodities and proceed to determine the exchange rate.

In a planned economy, exchange rate is formulated around the state economic plan. The plan determines the kinds and varieties, quantities and prices of the import and export commodities, and determines the exchange rate or determines the causes of readjusting the exchange rate. This point will be discussed further on in this article.

B. Commodity Prices, Cost of Exchange Conversion, and Renminbi Exchange Rate

People frequently only take the level of commodity prices to explain the cost of exchange conversion and the cost of exchange conversion to explain the necessity of readjusting the renminbi exchange rate. This is not comprehensive enough.

Let us first look at the course of changes in renminbi exchange rate and commodity prices. From 1953 to 1986, the renminbi exchange rate to the U.S. dollar was adjusted downward from one dollar equalled 2.617 renminbi to one dollar equalled 3.72 renminbi; the extent of the downward adjustment was 42 percent. But during this period the increase rate in the commodity prices of western countries was much higher than that in our country. From 1953 to 1981, the index of prices of consumer goods in our country averaged an annual increase of 0.95 whereas it was 4.47 in the United States, 7.22 in Britain, 3.27 in the Federal Republic of Germany, 6.37 in France, 7.36 in Italy, and 5.86 in Japan. From 1981 to 1985, the increase rate in the commodity prices in our country was also lower than that in the above-mentioned countries. [3]

Let us next look at a comparison of the changes in recent years of the average exchange conversion cost and commodity prices. In the 10 years between 1978 to 1987, the average exchange conversion cost was raised by about 80 percent, the rise in retail sales prices was about 40 percent and the increase rate in the index of wholesale prices was estimated lower than the increase rate in the retail sales prices, that is, the increase rate in the average exchange conversion cost was higher by over 100 percent over the increase rate in commodity prices.

The earliest formulation of the renminbi exchange rate and the subsequent several large readjustments were carried out fundamentally based on the average exchange conversion cost, whereas the exchange conversion cost itself is in relative or opposite relations with commodity prices. By reason, since the increase rate in commodity prices in our country was relatively lower than that in our major trading partners, the exchange conversion cost should fall and the exchange rate computed according to the exchange conversion cost should likewise fall. Why in actual conditions did the opposite happen? How should we explain the contradiction that renminbi's domestic value was relatively raised while its external prices were relatively lowered (if measured according to the exchange conversion cost, the existing exchange rate is still a higher estimate of the renminbi's external value)?

The reason for the increase rate in the average exchange conversion cost being faster than the increase rate in commodity prices is a simple one. Exporting more of the commodities with a high exchange conversion cost makes the average exchange conversion cost relatively increased. Changes in the exchange conversion cost may be brought about by the quantity and variety of the export commodities and not happen only in accompaniment with the changes in commodity prices.

As for the phenomenon of the movement in opposite direction of renminbi's domestic value and external value, it should be explained by the theory of price fixing of the exchange rate. Under the definite conditions of a relatively strong position determined by the production conditions, the larger the volume of a country's export commodities, the more the country will use in export commodities whose country-wise value is high but whose international value is relatively low. When the extent of the increase in a country's export is relatively faster than that in other countries while the rise in its productivity rate is relatively lower than that in other countries, the quantity of international value represented by the currency of that country as manifested in the export commodities will fall and the quantity of international value represented by the currencies of foreign countries as manifested in the import commodities will rise, thereby causing the currency's domestic value and external value going in opposite directions. Since the establishment of the PRC, the increase rate in our country's export is comparatively fast but in comparison with our trade partners, the productivity rate of our country, particularly that of the departments producing the export commodities, has not risen rapidly. From 1953 to 1985, the annual growth rate of the productivity rate in our country was 3.92 percent, while during the same period in other countries it was as follows: Japan, 6.2 percent, France, 4.42 percent, Federal Republic of Germany, 4.88 percent, Italy, 4.39 percent, Britain, 2.884 percent and the United States, 1.81 percent [4]. The growth in our country's exports on the one hand has been naturally due to the rise in the production capacity for export and the development of new products, but, on the other hand, it has been relying on financial subsidies from the state, which has exported more of the commodities with a high country-wise value but a low international value. When

the financial burden became too heavy, the state could not but depreciate or lower the renminbi exchange rate by raising even more rapidly the exchange conversion cost. But when the financial burden was reduced and became lighter, the export plan was again stepped up, the exchange conversion cost was again raised and a new force of pressure was brought to bear on the exchange rate. A rise in the exchange rate inevitable affects commodity prices and the exchange conversion cost and if such conditions meet with the environment of macroeconomic inflation, the dilemma in readjusting the exchange rate as mentioned above will naturally be generated.

C. Estimating the Two Problems Met With by Renminbi Exchange Rate

In the foregoing we discussed the basis for determining the exchange rate, and offered a computation model. Is it possible then to compute, based on this, a rational level for the renminbi exchange rate? There is no simple answer to this question. Below, let us analyze first the problems existing in the factors themselves which determine the renminbi exchange rate.

In this article we offered the pattern for estimating the central value of the exchange rate on the assumption of free international trade in a market economy. An important and special feature of free international trade is that profit-making is the objective of import and export and that the variety and quantity of import and export commodities are determined by whether or not profit can be yielded.

In a traditional planned economy, import and export are both carried out according to plan. The import plan is frequently formulated on the basis of the need for introducing equipment and technology for the economic development plan. Principally it takes into consideration the need for the stance of goods in kind and seldom considers the aspect of the role of economic laws. The foreign trade department must organize for import the import plan ordered by the state, regardless of the changes in the international market prices or the extent of the deficit or loss in foreign trade. The export plan is principally based on the requirements for foreign exchange. In a market economy, when the world market prices of export commodities fall, the export volume is reduced according to the large or small flexible character of the export prices; in a planned economy, the situation is frequently the reverse, and following the fall in the world market prices of export commodities, for the sake of fulfilling the task of attaining foreign exchange, the state will do the opposite and increase the export volume, taking the increase in the export volume to make up for the reduction in foreign exchange earnings due to the fall in prices. In the several past decades, our country imported many commodities whose price ratio was lower than the exchange rate and exported many commodities whose price ratio was higher than the exchange rate, that is incurring large deficits both in imports and exports. Naturally, in undertaking foreign trade activities, we should consider not only the macroeconomic angle in the value of making profit or not, but also the macroeconomic angle of using the value of benefits. However, here the problem is how to measure the benefits in value and how to evaluate whether or not the structure and gross volumes of our past imports and exports were rational. This is problem number 1.

Problem number 2 is that in this article the pattern suggested assumed the unanimity in the price and value of the commodities. So far as the main body of the imports and exports in a market economy is concerned, this assumption was rational. However, over the past several decades, our country unilaterally emphasized the stability of commodity prices and artificially restricted the role of the law of value, thus causing a serious breach between price and value and, associated with it, a breach between external and internal prices. In a market economy, through transformation of the supply and demand relations in international trade, divergences in the price of the same variety of product will be reduced in size and subsequently vanish. In our country, this liaison between domestic and external prices is severed by the import and export subsidies and customs duties.

The above analysis illustrates that in our country the factors determining the exchange rate, namely, the structure and the quantities of import and export commodities and the prices of commodities, are all twisted. Besides, each year these factors can be changed by the plan, and hence, despite the scientific character of the computation model itself, the level of the renminbi exchange rate estimated on the basis of these factors is rational only in a relative sense.

III. Countermeasures of Reform

At present, the problem of the renminbi exchange rate, the problem of the level and structure of commodity prices and the problem of the structure of the import and export commodities affect each other. The level and structure of commodity prices not being rational, it is difficult to formulate a rational renminbi exchange rate; with these two being irrational, it is again difficult to judge, from the angle of the economic benefits of foreign trade, whether or not the structure and volumes of the import and export commodities are rational. Among these three, any one of the problems can affect the remaining two problems and at the same time is affected by the other two problems, thereby forming an interlocking link which cannot be solved. This complex problem was formed during several decades and it is unrealistic to attempt to solve at one stroke the problems on all the three sides. Therefore, reform of the renminbi exchange rate should be planned in separate stages.

A. Recent Reform

1. Readjustment of the renminbi exchange rate and our country's economic development strategy.

Some people believe that our country has already basically completed the task of working out import substitutes and the production of many articles substituting for import articles including durable consumer goods has developed, or will soon develop, to the extent of fully satisfying the demand of the domestic market and hence should be oriented toward foreign markets. At the same time, it is necessary to make a lower estimate of the renminbi exchange rate so as to suit the transformation of this economic strategy. I cannot agree with this.

First, seen as a whole, our country still does not possess yet the conditions for the transformation of the economic strategy. Over many years, our country has practiced the closed-door policy and the level of our economic development has lagged far behind that of the developed countries. Only in recent years has the national economy begun to emerge from the self-supply and self-sufficient state to be transformed into an opening up economy facing two markets and utilizing two kinds of resources and has achieved a relatively fast development in its external economic relations. Still as a whole, in the composition of export products, initial-grade products still occupy a relatively large proportion, the export resources and technology are still in the developing stage and the export capacity is rather low. It cannot be denied that in our country certain products have reached the stage of substituting for import products and need to turn to the international market but they are still in the minority.

Second, compared with Britain, Japan, and South Korea, who have enforced the export-oriented economic development strategy, ours is a country possessing a wide territory, a huge population, and relatively pler tiful resources, and our domestic markets are wide and have great potential. Under such conditions, even though there is the possibility, we do not have the necessity of enforcing an economic strategy of mainly relying on the international market (the coastal and partial regions enforcing the export-oriented type of strategy excepted).

Summing up the reasons mentioned on the two sides above, at present and even in recent several years China still does not possess the possibility and necessity for transforming the entire economic development strategy. The development strategy at this stage should be a co-emphasis placed on a "domestic-oriented" policy and an "export-oriented" policy and the simultaneous use of "import substitution" and "export-oriented" methods. Since the question of a shift of strategy does not exist, there is no need to employ the policy of devaluating the renminbi to coordinate with this change of the strategy.

2. Readjustment of the renminbi exchange rate and the receipts and outlay in trade.

The relationship between the high and low in exchange rate and the receipts and outlay in trade as well as in other ordinary items is a relatively big problem involving much discussion and controversy both inside the country and abroad.

Generally speaking, a country's currency devaluation can, on the one hand, lower the relative prices denoted in terms of foreign currencies of that country's export commodities and thereby increase the demand by foreign countries of that country's export commodities; and, on the other hand, it can raise the prices denoted in terms of that country's currency of the import commodities and thereby reduce the import demand. But the increase in export volume and the decrease in import volume do not necessarily imply improvement of the ordinary items. Only when the sum of the demand flexibility abroad for a country's export commodities and the domestic demand flexibility for import commodities is larger than 1 can devaluation improve the receipts and outlay of ordinary items. If the sum total of these flexibilities equals or is smaller than 1, then devaluation will have no effects on, or may even worsen, the receipts and outlay of ordinary items. This is the condition laid down by Marshall Nullah, on the assumption of the indefinitely great or infinity of the supply flexibility. Subsequently Maisler in 1948 laid aside the assumption of the infinity of flexibility, made a revision of the flexibility theory and offered the even more complex formula of the critical value of flexibility.

Even under the conditions of a market economy, what effects changes in the exchange rate have on ordinary items are not certain. Under the conditions of our country, it is all the more difficult to assess what effects changes in the exchange rate have on ordinary items. First of all, the materials and statistics needed to estimate the flexibility are lacking, such as the detailed statistical materials on the various kinds of price indices. Second, under our country's existing economic structure, foreign trade is principally under the control and restriction of the state plan and the effects of policy factors on the structure and quantity of import and export far exceed those in countries of the market economy; the enterprises' reaction to price and exchange rate changes is slow; the changes from devaluation to the relative prices inside and outside the country and the transmission effects of the various links of the production and supply of the export commodities are lower than in countries of the market economy. Third, seen from the composition of our country's existing import and export commodities, of the export commodities the proportion occupied by initial-grade products is rather high, while imports principally consist of advanced technological equipment, means of production that are short and scarce in our country, necessities of daily life and high-grade consumer goods such as small motor vehicles, color television sets, and so forth. Although so far nobody has attempted an estimate of the flexibility, generally speaking, the demand flexibility of the above-mentioned import and export structure is relatively low.

3. The economic situation and the policy on renminbi exchange rate.

At the moment, the prominent problem in China's economy is that of currency inflation. Under such conditions, it is not fit to adopt a policy of lowering the

renminbi exchange rate. Even though devaluation can to a certain extent play the role of encouraging exports and limiting imports, we should, with regret, refrain from doing it because the stability of commodity prices is vital to the whole economic situation and to political stability.

Currency inflation, through causing the rise in prices in local or home currency of import commodities and price-raising and panic buying of export commodities, affects the level of commodity prices. According to estimates, if the renminbi exchange rate is depreciated by 15 percent of the existing basis, credits and loans alone will require an annual increase in input of over 10 billion yuan. In addition, the psychology of anticipating currency inflation is now generally prevalent and lowering the renminbi exchange rate will inevitably help the growth of the phenomena of panic buying and scrambling for withdrawal of bank deposits in society.

4. Readjusting the exchange rate and financial revenues and expenditures.

In our country, exports are policy-oriented and imports are also policy-oriented; in the case of the subsidies on imports and on exports, readjusting the exchange rate can only reduce the one and increase the other. Naturally, because of the difference in the structure and method of pricing of the import and export commodities, the increase and decrease in subsidies are not entirely equivalent to each other. Just the same, readjusting the exchange rate will not bring about any too large changes in the gross amounts of import and export subsidies.

Summing up the above points, lowering the renminbi exchange rate cannot induce playing of the positive role, as people may anticipate, of the coordinated shift of economic strategy, rewarding exports and restricting imports, and reducing the financial subsidies, but it is inevitable that it will play the passive role of pushing the rise in commodity prices, affecting the reputation and prestige of the renminbi, and causing international criticism. On the other hand, raising the renminbi exchange rate is not realistic under the conditions of the current composition of the import and export commodities and the level of commodity prices. Therefore, in the recent period, the renminbi exchange rate should basically be maintained at the existing level.

B. Medium-Term Countermeasures

Only through smoothing out the relations between the renminbi exchange rate, composition of the import and export commodities, and the prices of the latter can we basically solve the problem of the renminbi exchange rate.

Up to now the separated and split-up state between our country's domestic price and international market prices has not made any basic changes and smoothing out the price relations will still require time. Under such conditions, if the recent formulation method of the renminbi exchange rate is still maintained, the two targets of the exchange rate and prices will still not be sufficient to serve as the standard for macroeconomically readjusting the foreign trade structure and the phenomena of "real loss but false profit, and false loss but real profit" will still exist while microeconomically business accounting is difficult to be rational. How then should the relations between the three be smoothed out? I am of the opinion that we should learn from the experiences of the Soviet Union and other East European countries in such things as formulating and employing shadow prices and shadow exchange rates, rectifying the existing prices by means of shadow prices, and rectifying the twists in the current exchange price through the use of a shadow exchange rate. Utilization of shadow price and shadow exchange rate makes it possible to judge the real state of profit or loss in foreign trade, and, from the angle of macroeconomic benefits, make clear the composition and volume of import and export commodities. Based on this, the existing foreign trade structure can be regulated and the maximizing of the economic benefits of macroeconomic foreign trade can be realized.

Based on our country's existing conditions, it is suggested that first we should estimate and compute the shadow prices and shadow exchange rates for the large categories of import and export commodities such as petroleum, textiles, and electrical products, make the shadow prices and shadow exchange rates serve as reference materials for regulating the composition of the import and export commodities and at the same time as references for price reform, and gradually enable the foreign trade structure to become the strongest and the prices to become rational. Simultaneously, we should gradually open up the foreign exchange market, introduce the market mechanism, and create the transitional conditions to the system of floating exchange rate. This should be the main task of reform of the renminbi exchange rate in the Seventh 5-Year plan period and even a longer period.

The direction of the long term reform of the renminbi exchange price should be revision of the system of the exchange rate, that is instituting a certain form of a floating system based on market mechanism.

Footnotes

1. Price ratio refers to the same commodity's comparative rate between its price inside the country and its price outside the country.

2. When the export volume is larger than the import volume, among the export commodities tick off or eliminate, according to order, the commodities with the highest price ratio; contrarily, when the import volume is larger than the export volume, among the import commodities tick off or eliminate, according to order, the commodities with the lowest price ratio, until the import and export volumes are balanced. The basis for this, as mentioned in the foregoing, is that in international free

trade, commodities whose price ratio is lower than the exchange rate are exported and commodities whose price ratio is higher than the exchange rate are imported; preference in export is given to commodities whose price ratio is lowest and preference in import is given to those commodities whose price ratio is highest.

3. Reference: "International currency funds" in September 1985 issue of "International Financial Statistics"

4. See "World Economic Outlook," April 1987 issue, p 49

Rebroadcast of 'River Elegy' Stirs New Debate

40050194 Beijing WENYI BAO in Chinese
26 Nov 88 p 4

[Article by Correspondent Xiao Rong 2556 5554: "Conflicting Views Following Rebroadcast of 'River Elegy'. 'River Elegy' Main Scriptwriter, Su Xiaokang 5685 2556 1660, Talks About the 'River Elegy' Controversy"]

[Text] "About River Elegy" has become a hot topic in the year of the dragon. After the Central Television Station rebroadcast this six part television film in response to viewer demands, some local stations aired it three times. As before, it became the talk of the country, and views were conflicting.

Following the 5th Cultural Congress, people hoped for genuine implementation of the spirit of the "congratulatory speeches," and that this controversy could be conducted calmly.

Following rebroadcast of River Elegy, both television stations and directors received as many as a thousand letters, and critical articles frequently appeared in publications everywhere. The overall reaction was a healthy one. Criticisms had to do with artistic techniques, academic views, theoretical ideas, the leitmotiv, and the basic thrust. Some comments were rather sharp. It was pointed out, for example, that River Elegy's "historical outlook and cultural outlook are narrow and shallow." Its theoretical bias and one-sidedness "demonstrates a certain degree of historical nihilism and racial nihilism," or River Elegy was regarded as "the reflection of a view that is not worthy of history, not worthy of the times, and not worthy of practice." "It detours around the dangerous shoals of real problems to flog our ancestors in safety." It expresses "high level discontent"; it was criticized for "using western cultural forms as the norm for measuring Chinese cultural forms," etc. The directors of the television film believe that many of the views present the facts and reason things out; they are normal discussions of an academic character. The directors did not agree with some views, and debated them. They said, "this debate is also normal."

Judging from the large volume of letters from ordinary viewers, the public that works on the front line of the four modernizations had a positive understanding of River Elegy. They regarded the broadcasting of this television film as "a great favor for the country" because "a people that is able to face up to its weaknesses is a great people." Through a nationwide re-examination of the people's traditional culture, the Chinese will gain a new sense of civilization. Some letters from young people and students were profoundly moving, and showed a powerful love of country.

While talking to the correspondent about this interesting controversy, one of River Elegy's scriptwriters, the young author, Su Xiaokang, reiterated the original intention in making this television film. He said that the director had tried to bring a large dose of theoretical information to the fluorescent screen, and think about this problem jointly with the people of the nation. "What kind of courage, insight, and introspection will we make ready in the face of the the great risks of 20th century reform?" This is a stern and serious question. He said, "Even if our efforts fail, China must reply!"

As a critic, Su Xiaokang's hope is that once a common point of departure and a unanimity of theoretical concepts has been found, the debate can continue in a healthy and democratic way. He said that "if 10,000 people maintain that River Elegy's basic position was an 'advocacy of across-the-board westernization,' or that it had another political purpose, I think that they misunderstood our original intention."

In speaking about the merits and demerits, and the points of success and failure of River Elegy, Su Xiaokang said that one might say that we were successful in our use of a television form in the nature of a political commentary for transmitting the fruits of thinking. Were we to make another try, our choice and expression of theories would be more accurate and more well-knit. We would try to be more restrained and less sentimental, and we would use more on-the-spot reports to flesh out 'River Elegy's' vague and abstract sermonizing. In addition, we would try to do a more perfect job of combining sound, photography, illustrations, and music.

He said, "Despite countless difficulties, we have to continue to explore."

In discussing a work of literature or art, one should not just follow the bandwagon of scholars' expert and authoritative judgments, nor should one be silenced by the personal impressionistic statements of leaders. Those who hold divergent views should be allowed to speak out freely, and those who are criticized should be allowed to defend themselves on the basis of reason. Practice makes perfect, and mighty oaks from little acorns grow. It is hoped that River Elegy will enable observers of the forward movement of Chinese civilization to make a new step forward.

Rehabilitated Writer Reflects on Vagaries of Chinese Life

40050194 Beijing GUANGMING RIBAO in Chinese
29 Dec 88 p 1

[Article by Xiao Qian 4682 0051: "These 10 Years"]

[Text] Looking back, these have been an extraordinary 10 years both for the country and for me.

Personally, I am perfectly content. I did not become an outcast just in 1957. As far back as 1950 I knew that I had been put on a "blacklist." Since 1978, my greatest pleasure has come from learning through various indications that my name had been taken off of that frightening namelist. Thus, some of the things that I have written

since the 1930's have again seen the light of day, and I am once again able to travel outside the country and back. Furthermore, I have some work to do other than make my bed. When I thought about how some intellectuals are still living in a single room shared by three generations, I publicly announced that life absolutely could not be better for me. Every time guests express sadness about my room being so narrow, I say that for Chinese intellectuals, this is an upper middle class room. As the waters rise, all boats rise. I do not intend to lose contact with the realities of my country.

Do I still have lingering fears? To be honest, I cannot flatly deny that I do not. When I realize that people are dismissed not for what they do but for what they say or write, I cannot help but be concerned. Still, I feel that China in the 1980's has come a long way from the 1950's. Clearly, there has been a change in the climate, so that now people dare express feeling or sympathy for those who have been dismissed, and without being sent to supervised labor for it as I was. This makes me feel optimistic, and I feel that the future holds great hope.

Because of my own and other people's painful lessons, I have learned during the past 10 years both how to swallow words and to speak only 70 percent, or possibly less, of what I might like to say. Even so, I have a feeling of futility. For example, both the NPC and the CPPCC have repeatedly called for serious attention to education. Recently a young person told me that at Yanan, that sacred place of the revolution, the whole area is covered with the old homes of this or that revolutionary hero, with even Lin Biao's old home being preserved as well. At the same time, the middle and primary school classrooms there are damp, rudimentary, and terribly crowded!

Yes, the several storms of the past 10 years have died down, but not because of the power of the constitution, but because of a certain able person at the top level in the Party. This makes people worry. What if there had been no able person, or if the able person had been unable to work his will! Today one can only say that this is a transitional period between the rule of men and the rule of law. It seems that of the three big mountains [of imperialism, feudalism, and bureaucratism], the one that is hardest to move is feudalism.

During these 10 years, I visited three of the "four little Asian tigers," [Hong Kong, Korea, Singapore, and Taiwan] and was profoundly moved. Some that had been poor are now rich, and some that depended on imports are themselves now able to manufacture. When I look at them one by one, I am happy, but when I look at the total situation, I am sad. At the beginning of the 1960's, the situation in each of these countries was more or less the same as our own, or possibly not quite as good as our own. But what about today? We are trying to catch up, while they are not just standing still.

Recently I read Jia Pingao's [6328 1627 0425] novel *Impulse*, in which he wrote about an honest, courageous, hardworking, and promising young rural reporter named Jingou, who was chained and thrown into prison for having exposed a shameful secret of the township CPC committee. In the end, this unjust verdict was reversed through the efforts of Jingou's sweetheart, Shihua, who reluctantly slept with the son of a high ranking cadre. Such a profound and biting satire!

China is magnificent. Were this a small country, it would have been long since ruined by a cultural revolution. I am deeply in love with China, and I firmly believe that it is like a huge tree that insects cannot consume or that frost cannot bring down. Even so, when I see the insects feeding and the frost attacking, my heart still aches.

Mobil Oil Corporation Awards Pegasus Prize to Chinese Novel

40050168b Hong Kong LIAOWANG [OVERSEAS EDITION] in Chinese No 50, 12 Dec 88 pp 32-34

[Articles by Xiao Qian 5618 0051, Tang Dacheng 0781 6671 2052, Liu Zaifu 0491 0375 1788, and Wang Cengqi 3076 2582 4388: "*Fuzao* Captures the Essence of Rural Life and Abrupt Changes Brought About by Current Reforms"]

[Text]

On *Fuzao* [RESTLESS] by Xiao Qian

In recent years I have read every work that I can lay my hands on by Jia Pingwa [6328 1627] set in Shangzhou (as it exists in his imagination). I used to think of him as a bespectacled old man in his 50's or 60's who had tasted life to the full and wrote in a simple unaffected language. Only after reading the author's preface to *Fuzao* did I realize that he was only 33 when he wrote the book. I also learned that after writing 150,000 characters, he found them unsatisfactory, threw them all out, and started all over again. He is a very serious young writer of our time.

When I first opened this novel, I found the title *Fuzao* odd. Soon, however, I discovered that the title is no contrivance but a summation of how the author feels about the time he lives in. The Zhou He is a turbulent river and the folks who live on its banks are a bunch of restless people. After the communes were abolished, the responsibility system was introduced, and the CPC called on and allowed some people to become rich ahead of others, Jin Gou and Lei Dakong, both young men in the village, and Tian Zhongzheng, secretary of the village party committee, all bestir themselves. Tian Zhongzheng wants to reap political capital from the river transport team. Taking advantage of the opportunity, Lei Dakong, who sells rat poison, becomes a "profiteer." As for Jin Gou, a platoon worker and demobilized soldier, he becomes a township reporter. He is a decent young man, courageous and promising. He refuses to be bought, is not afraid of power and influence, and has the courage to

expose Tian Zhongzheng and his cronies. As a result, he is framed. The overturn of this unjust verdict is the master stroke of the entire novel. Only after his girlfriend Shi Hua lets herself be raped by the son of a senior cadre is Jin Gou delivered from persecution.

The novel does not deal in generalities but is based on real issues in daily life instead. The hero, Jin Gou, sometimes takes a rather casual attitude toward love, as shown in his relationships with three women, Xiao Shui, Ying Ying, and Shi Hua. But that does not disqualify him as a true hero, a vital force for spearheading reform.

Jia Pingwa describes vividly how the two powerful families surnamed Tian and Gong respectively use their power to defy the law and obstruct the progress of reform. Complex schemes of influence-peddling through personal relationships and all manner of cunning and diabolic methods are all so subtle. This is exactly what the writer sets out to achieve: more restraint, more mystery. The characters are presented realistically as if in flesh; they are not fictitious.

There are similarities as well as differences between the two generations in Zhou He. The older generation is happy if only it can farm a few acres of land. After the Cultural Revolution, their utopia is the 1950's, now gone forever. The younger generation, on the other hand, wants to replace the bamboo raft with sampans and even organize a fleet. They are totally committed to entrepreneurship and to becoming a 100,000-yuan household.

Love relationships permeate the entire novel. Each of the several female characters has a distinct personality. There is an adulterous relationship between a woman and her brother-in-law, the use of sex to buy favors, and a profound love between Xiao Shui and Fu Yun (and, later, Jin Gou.) The book is most successful when it depicts the relationship among Jin Gou, Fu Yun, and Xiao Shui, demonstrating the selflessness of Orientals in love.

I am no expert in fiction. When I read a novel, however, I do have some unwritten criteria in my mind. First, I demand that it be appealing. That is, the story must be so fascinating that one cannot but take an interest in the destiny of the characters. Second, I demand that the characters, places, and events all assume a lifelike quality, touchable and visible. Finally, I expect the work to be written in a langauge that is fresh, not hackneyed; lively, not affected.

As I read *Fuzao*, I seem to have been transported to Liangcha Township, Bujing Knoll, and Xianyou Sound along the banks of the Zhou He and I seem to be well acquainted with the people in the river township, including a minor character like Han Wenju. Most importantly, I feel that the township is bestirring itself [illegible] forces of rebirth and decay are battling each

This novel reveals China's backwardness and the remnants of a deep-rooted feudalism. However, it also shows that a new generation is growing up, representing the first light of morning for China.

Congratulations, *Fuzao* by Tang Dacheng

The Mobil Oil Corporation of the U.S. has awarded its Pegasus Prize to Jia Pingwa, a young Chinese writer. As a member of the selection committee, I am very pleased.

Jia Pingwa is a celebrated writer in the contemporary Chinese literary community. He has his own unique creative personality and aesthetic quality. The cultural critical spirit and sense of cultural history that characterize his works are closely related to his personal history and experiences. He grew up in a peasant family in the Shangluo mountain areas in Shaanxi Province. Poverty and his personal participation in agricultural labor have not only steeled him and enabled him to bear hardships, but also given him a profound understanding of the life, thought, feelings, psychology, and uncertain destiny of peasants today. For them he has a natural sympathy that cannot be severed. Sun Li [1327 3680], the veteran writer, once described Jia Pingwa thusly, "He resembles a peasant bending over to toil alone incessantly in his smallish vegetable garden, rain or shine, a bamboo hat on his head." Thus what he writes about is "firmly rooted in his life experience." Later, when he got a chance to go to college, he studied long and hard, demonstrating his extraordinary literary talent. Soon he earned the recognition of the literary community.

The prize-winning *Fuzao* is his first full-length novel. In my opinion, this novel is a significant improvement upon his earlier works both in the breadth of life described and in the depth of his thought and cultural content.

Rural life today is being disrupted by the tidal wave of reform and opening to the outside world. From the vantage point of the time, *Fuzao* zeroes in on certain aspects of rural life in the midst of reform with a critical cultural eye and individualistic aesthetic pursuit. It presents before us a vast transformation, rich with interwoven conflicts, economic, political, cultural, moral, and psychological. Although the novel is set in a small corner in a remote mountainous area of China, it faithfully reflects the realities in the countryside today, steeped in traditional culture yet seething with restless change.

By contrasting Jin Gou with Lei Dakong, two personalities full of cultural significance, the writer drives home the point that grassroots reform in the countryside at the present stage must not only contend with the backward forces of power and influence represented by the likes of Tian Youshan and Commissioner Gong, who use the feudal patriarchal ideology to build up their position, but also unshackle itself from the cultural psychology, the old mentality, and a restless uneasy state of mind. For

years, the patriarchal feudal cultural tradition still influences all aspects of society and the cultural psyche to varying degrees, constituting the most formidable and serious obstacle to reform today. Lei Dakong's tragedy illustrates this point most poignantly. Even a relatively modern-minded young man like Jin Gou is also hampered in his journalistic career and love life by the lingering traditional culture. Jia Pingwa's close observation of current rural reforms makes us realize even more deeply that connected to the multifaceted reform of man and the renewal and improvement of his cultural quality are critical issues that cannot be sidestepped. We on the selection committee think that it is precisely the writer's sensitive and unique artistic grasp of the reality of the current situation that makes *Fuzao* one of the landmark novels of the new era.

The awarding of the Pegasus Prize to an outstanding Chinese novelist for the first time clearly will have tremendous significance for furthering Sino-American cultural exchange. In recent years, as China intensifies reform and the policy of opening to the outside world gains depth, the prospects for cultural exchange between China and the U.S. appear very bright. The profound changes and developments in the field of modern information have made it increasingly clear that a closed society deprived of new information and cultural exchange cannot create a dynamic and creative climate conducive to a great flowering of intelligence. And the absence of such a climate will jeopardize the improvement of a people's cultural and intellectual quality and modernization and certainly will do nothing to encourage innovation in literature and art. Accordingly, we are only too happy to support this kind of prize-awarding selection activities energetically. We believe they affirm not only the unique creative labor of excellent writers, but also the ever-accumulating cultural spiritual wealth of mankind. Such affirmation will deepen mutual understanding and friendship and enhance our confidence that together we can build a peaceful, harmonious future world with a glorious culture.

What Makes *Fuzao* a Success by Liu Zaifu

Jia Pingwa is a very hardworking and truly talented writer. He is totally devoted to literature and is firmly rooted in his area of expertise. Strangely enough, his pen transforms everything about the countryside into touching art. He is concerned about social realities. But all social realities become sublimated art through his writing.

I support the awarding of the Pegasus Prize to *Fuzao*. A close observation of the special public psychology amid the turmoil of reform, a keen sense of suffering, and a profound cultural spirit make *Fuzao* not only an important piece of creation in Jia Pingwa's own writing career but also an outstanding work among other new-era novels. It distinguishes itself from other works in two ways in ideas and content alone:

First, by describing the ways in which Jin Gou is hampered by interpersonal relationships and social networks even as he lives amid them, the novel reveals the patriarchal social structure and agricultural cultural psychology that still exist in certain parts of China today. The Tian family, represented by Tian Zhongzheng, is able to ride roughshod over the village by taking advantage of its position and influence and because the Gong family is no match for it in terms of power. But it is also helped by the human tendency to put up with poverty and be satisfied with one's lot, the rule of the golden mean, and servility. Although the frequent setbacks suffered by Jin Gou and others in their struggle are caused by the deliberate obstruction of people like Tian Zhongzheng and other external factors, their own weaknesses such as blindness, ignorance, and restlessness are also to blame. Jin Gou and the Tian family represent the two extremes in politics, progress and conservatism, but culturally speaking, they are similar in some respects: strong family ties, small-peasant mentality, the desire for revenge, and fatalism. To advance and mature, therefore, Jin Gou must understand and overcome himself as well as the other side.

Second, the difficulties and problems experienced by Jin Gou in the course of reform also show that in China economic change takes pace at a different pace from political change and that individual psychology changes at a different pace from group psychology, bringing to light the complex social circumstances resulting from the differences. Jin Gou feels the pain more acutely than others precisely because he recognizes these problems earlier and to a greater extent. He also shows more determination because his early awakening enables him to see the opportunity and hope offered by reform. At this historic juncture when every type of conduct can be rationalized, Jin Gou and others need greater historic initiative to forge ahead. In celebrating Jin Gou's bumpy struggle, it is clear the writer eagerly looks forward to greater change in society.

As a portrait of contemporary Chinese rural society, both physical and psychological, *Fuzao* helps us understand the array of economic, political, and cultural characteristics of this great agricultural nation of ours. It also reveals vividly the urgent and necessary demands of reform upon our society and shows the depth to which reform has shaken up this ancient land with its ancient soul.

I believe Jia Pingwa can further combine his concern for the nation with his concern for mankind and embraces mankind closely even as he embraces the nation, contemplates human destiny even as he contemplates the nation's destiny.

Jia Pingwa the Person by Wang Cengqi

Jia Pingwa is a genius among contemporary Chinese novelists. Only 37, he has written 38 books of varying lengths. As an essayist, he is in a class by himself. He also

writes poetry occasionally. If you stack up his works on the floor, they will reach higher than his knees. We have other prolific writers, of course. Some of them can churn out a full-length novel within a month, a medium-length book within a week, and a short story within an evening. But one seldom finds a prolific writer who also writes well.

A native of Shangzhou, Pingwa has an extensive knowledge of ancient Chinese cultural relics, particularly those of the Qin and Han Dynasties, for which he has a good eye and rare enthusiasm. His study, Jingxu Cun [Silent and Empty Village], is full of jars and pots. He spends time with them day and night, stroking them, wiping the dust off them, enjoying himself as he does so. Pingwa came from a peasant family and attended the Chinese Literature Department of Xibei University, where he obtained a systematic and broad knowledge of Chinese classical literature. In this sense, he is not a "peasant writer" as usually understood. He has studied Lao Zi and Zhuang Zi as well as Zen sayings. He is interested in and has a passing acquaintance with various religious sects and schools of thought, along with medicine, fortune-telling, and astrology, all of which he interprets and explores as a cultural phenomenon. His *Fuzao* is a chronicle of the multifaceted psychological and cultural changes experienced by native residents on the banks of the Zhou He, an imaginary river, in the great turbulence of reform. He does not limit himself to describing township enterprises and commerce on the river. He sums up the new state of mind as "restless," a condition typical of our time. In this respect, this novel takes a different perspective from that of other works on reform and reaches a deeper level.

He titles his novel *Fuzao*, but significantly calls his study Quiet and Empty Village. Quiet and emptiness are the philosophy of Lao Zi. Only in the midst of quiet, emptiness, solitude, and detachment can the writer understand the ways of the world and see through the human soul. Pingwa is a genuinely unassuming man with no interest in fame or fortune. He has never shown any "writer's airs" during all my contacts with him. He tries to keep a low profile in a crowd and seldom speaks. In casual chitchats, however, he is very quick-witted and humorous. As a member of the selection committee for the Pegasus Prize, I believe we have picked a good novel and a good man. I am very pleased about that.

Pingwa's wife, Xiao Ping, asked him, "How much potential do you still have as a writer?" Pingwa said, "I have barely begun!" A young man with an inexhaustible Shangzhou life to draw upon. How enviable! Still I hope Pingwa will loosen up a little in his future writing. Slow down a bit. Don't be in such a hurry. There was a certain impatience about the way *Fuzao* was written, particularly in the latter half. In his impatience to tell the story, he left himself little time to describe the psychology of the characters or the scenery. The conclusion is a little too hasty. The symbolic Zhou He does not flow from beginning to end continuously throughout the novel.

Pingwa wants to change his "seemingly rigid realistic style of writing" and "do something he feels like doing." I too believe this "rigid realistic writing style" has constrained him. I hope he will write more freely in the future. To begin with, relax a little.

Wang Ruowang Reviews Controversial Novel

40050168a Hong Kong PAI HSING [THE PEOPLE] in Chinese No 182, 16 Dec 88 pp 20-21

[Article by Wang Ruowang 3769 5387 2598: "Controversial Novel Attacks Policy of Obscurantism"]

[Text]

Earning the Reputation of Being "Controversial"

RONGYEDE SHIZIJIA [*The Honored Cross*], a novel by Zhang Shimin [1728 1102 2404], earned the reputation of being a "controversial work" soon after its publication. "Controversial" was originally a derogatory term. It used to describe a situation in which top-ranking party officials (primarily those in charge of ideology) viewed a group of works unfavorably and wanted to destroy them. The reason is that such works attempt to break the various taboos of the Mao Zedong era and have the guts to expose the shortcomings of socialism and its destruction of human nature and human rights, and castigate the outrageous and corrupt behavior of certain party officials.

These officials certainly had the freedom to express their displeasure and anger at this type of works. The trouble is that in a nation without any laws protecting freedom of speech, freedom of publication, and freedom of artistic and literary creation, the freedom of the people in power to express their personal feelings trampled upon the freedom of writers and artists to create and publish. Officials these days do not resort to brutal methods to punish writers and artists, unlike in the Mao Zedong era. Instead, their methods are more civilized: a quiet publication ban, a nod to the "writing group" to criticize and attack so-called questionable literary and artistic works. This kind of "mass criticism" can be traced to its counterpart in the Cultural Revolution. The so-called "writing group" refers to the handful of intellectuals who, unlearned in anything other than Maoist dogma, have been assembled in the name of the party. Their job is to launch a joint anonymous attack on designated works following a tune set by the authorities above. The writer under attack is not allowed to defend himself. Nor are articles criticizing the writing group allowed to be published. This is no different from what happened during the Cultural Revolution. In addition, the party's top leader criticizes the writer concerned by name either orally or in party documents, setting the stage for a noisy clamorous national campaign. This situation has come to a peak three times since 1979. The targets of attack have been fewer than in the days of Mao Zedong and the language of attack has slightly changed, but neither in the Mao Zedong era nor in the age of his successors are

writers and artists free from attack. The result is a number of so-called "controversial works," otherwise known as "big poisonous weeds" in Mao Zedong's days. This peculiarly Chinese cultural phenomenon is rooted in one-party Communist rule and the drive to impose a unified ideology by the sheer force of power. Yet leaders in charge of culture are unlearned themselves. All they can fall back on is "political advantage," which boils down to just one word, "power." But genuinely worthy literature and art are totally incompatible with power. Certainly, there may be one or two individual leaders who are highly educated intellectuals. But the fact that they have joined the bureaucracy and reached the top has distanced them even more from the viewpoints, thinking, and feelings of the people and from the real life of the common man. Fearful that literature and art will expose their lawless, corrupt, and arbitrary behavior and their entrapment of the people, the most sensitive issue in the minds of the rulers and the most unbreakable of all taboos, the officials are most concerned to safeguard the privileges and interests of the ruling party. This is a shared concern among the bureaucrats, something that binds their interests together. If we do not point this out, we cannot explain why Mao Zedong and his successors for decades consistently attacked intellectuals who have the courage to tell the truth and literary and artistic works that reflect reality. It can also be seen that these are the people who oppose political reform, press freedom, and freedom of creation. Needless to say, they are reluctant to be branded as belonging to the "conservative faction." Looking back at 40 years of literary history, we discover an irrefutable rule: No writer or literary work which has come under attack or been criticized deserves to be so treated. In fact, a majority of such works have stood the test of time. The same rule applies to the so-called "controversial" works in the new era.

Based on this rule, domestic and foreign readers can regard a list of criticized works as a selection of some of the better works. It is like telling everybody that a certain book has won the first prize.

From Bestseller to a National Sensation

Zhang Shimin's novel became controversial as soon as it was published. This irked some leaders so much that Yang Huaiyuan [2799 2037 6678], the famous model worker whose life experience bears some resemblance to that of Yu Miaogen [0060 1181 2704], the leading character in the novel, came forward and filed a suit with the court, charging that the writer has committed libel against him and his wife. Thus what was originally a controversial bestseller became a national sensation. A discussion has been going on on the mainland in recent years about why there has not been any literary work that bestirs the entire nation. To be a national sensation as defined here, a work must satisfy the following conditions: 1) It must be a trailblazer. It must demonstrate a courage to tread uncharted territory and deal with taboo subjects nobody has touched so far; 2) It confronts reality directly and is closely bound up with the rhythm of the time. It must generate intense feelings of love and hate. It must be affecting. What it exposes in the way of inter-personal relations and psychology must be typical, widespread, and extremely moving; and 3) It appeals to both refined and popular tastes. Despite all sorts of fictitious bizarre descriptions, it analyzes truth and social maladies that have been suppressed, using advanced modern and sometimes futuristic ideas and a sense of suffering. It is thought-provoking and right on target in its criticism.

The story in the novel may seem a little too weird and absurd. The characters may appear slightly too wild and abnormal. But that is because society is full of people who are weird and abnormal. If such absurdity and abnormality are only tragic traits in the character of an individual and have nothing to do with the shortcomings, corruption, and arbitrariness of the party, the government, the military, or the machinery of autocracy, then we can guarantee that all would be well. Unfortunately, any and every dispute and error in China cannot be separated from politics and power. Writers do their best to extricate themselves from them and escape from their clutch, to no avail. Some people try to play down politics and run away from reality, creating new genres such as escapist space literature and mountain and forest literature, only to end up writing some "published trash" that nobody cares to ask about or producing a literature that tells lies and deceives the public.

Even without the lawsuit brought by the national model worker, *The Honored Cross* would have caused a sensation on its own because it satisfies the conditions mentioned above. Take the first condition, for instance. It sheds light on the breeding ground of model workers and advanced heroes and the tragedy of personal distortion, all subjects untouched by writers in the past. In contrast, works that extol the virtues of models and advanced individuals are legion, whether they are films, dramas, or biographies. Such works have been encouraged and nurtured by the party painstakingly, assiduously, and consistently over the decades, sparing neither labor nor money. No writer or artist dare tamper with them however slightly. Political and ideological workers, sociologists, political scientists, and psychologists all skirt around this "ghost pool." One would risk universal condemnation to point out that certain model workers are really no models and that the fabrication of model workers is actually a trump card in the CPC's policy of obscurantism, and to remove the colors, in various "left" shades, splashed on the model workers. To do so would not only demolish the sacred temples that took 3 or 4 decades to build, like the terra cotta warriors and horses of the Qing Dynasty, but would also offend celebrated figures in all trades and professions that number in the tens of thousands. To write that kind of novel, the writer must be courageous and insightful as well as exceptionally gifted artistically. Zhang Shimin has exactly the kind of courage described in Chinese folklore: "Even though one knows there are tigers in the mountains, one goes into the mountains anyway."

Impact of Novel Incalculable

The impact of this novel is hard to calculate. Without any exaggeration, one can compare it to DON QUIXOTE. In medieval Spain, the tradition of chivalry was in decline, but chivalry literature remained popular. Cervantes' work swept away chivalry literature in one fell swoop, much like the autumn wind that blew away every leaf on the trees. Model workers and the authorities went all out to suppress *The Honored Cross*. Yet as some readers point out in their letters, "Even more people will come to appreciate the value of your novel a few years from now." (Shanghai SHENGHUO ZHOUKAN) We do not agree with Mao Zedong that a novel or a movie could ruin a party or a nation. This exaggeration was a pretext he used to suppress or eradicate literature. Yet we must admit that literary and artistic works can play a useful role in eliminating corruption and getting rid of the old to make way for the new and are a vital spiritual force that can mobilize the nation to pursue the truth, the good, and the beautiful. I cannot say that Zhang Shimin's novel alone can totally wash away the mottled colors on the model workers. But the appearance of this work happened to coincide with the fall of the statue of China's first god. Beneath it are numerous lesser gods and deities. Some have volunteered for the shrine, others were dragged into it against their will. Like chivalry literature that ran rampant in Spain, art and literature that dealt with and urged us to copy advanced figures are still being churned out with no letup. This thin volume by Zhang Shimin is the first to undermine the foundation of the shrine on which the deification movements rests.

China's deification movement is a copy of the Stalinist model. Stalin found his first national model worker in Aleksandr Stahanov, a coal-miner. Since Gorbachev called for purging Stalin and telling history as it really is, a movement to criticize model workers has been under way in the Soviet Union. Criticizing a movie that tells one lie after another to whitewash the socialist collective farm movement, Yehvudshenkev, a poet, said, "An outstanding coal-miner, Stahanov was a quiet man to begin with. He was arbitrarily separated from his pneumatic pick, which he handled with facility, and put on the pedestal as a social model. It was exactly this kind of social model that formed the veneer of the dictatorship of the proletariat. In reality, the dictatorship of the proletariat has been replaced on the stealth by bureaucratism." ("A Party Without Members," published in MOSCOW NEWS. Reprinted in SHIJIE JINGJI DAOBAO, 24 October 1988)

Emulating Model Workers Is a Policy of Obscurantism

In China too, model workers and advanced figures are presented as social models. The models themselves do nothing wrong. They are promoted to serve the deification of Mao Zedong. They are allowed to make appearances everywhere and present reports, a loudspeaker that serves political needs. They are the lead singers that sing the praise of dictatorship. They are embellishments that turn pustules into colorful hanging lamps. They have a split personality. In the beginning, they were seduced by glory and flattery; later they were involuntarily led by the nose by the party's political and ideological workers. In the process a decent human being becomes a pawn in the hands of politicians. To make the models more authoritative, party and government organs at all levels portray them as gods at varying levels, all perfect and flawless. To do so, they must resort to deception and confer on them a string of honors and privileges. To rival Stahanov, China had its own Chen Yonggui [7115 3057 6311], who became a vice premier, and Li Suwen [2621 4790 2429], who was a vice chairman of the National People's Congress. In *The Honored Cross*, Yu Miaogen is just such a social model. Yang Huaiyuan, the national model worker, charges that there are 70 similarities between himself and Yu Miaogen. In volunteering to make such an identification, he only shows that he belongs with the likes of Chen Yonggui and Li Suwen.

Besides being a loudspeaker to propagate party policy, model workers and heroes also serve as the personification of morality. The party persistently publicizes Lei Feng and his spirit precisely because it needs an instrument of control, someone who is as loyal to the party and the leaders as a screw, so that it can appeal to young people to emulate him. This is actually a policy of obscurantism.

Gratifyingly, the policy of obscurantism and the practice of distorting the distinguished job records of many people as "viruses" has run into popular resistance, both open and subtle. Some model workers have grown tired of and indifferent to the rewards and honors bestowed on them, a weariness reflected in the saying, "It is hard to be a model worker or advanced individual." Young female workers have no liking for model workers. "When one becomes a model worker, one's lover leaves him." It was against this social backdrop that *The Honored Cross* sounded the death knell of the social model.

The novel will cause a series of ripple effects. This is because the "Yu Miaogen phenomenon" is all around us. After reading it, I could not help but recall BING MEI GUAN JI by Gong Zizhen [7895 5261 3791]. Model workers and advanced elements are exactly like Mei Cun, full of sweet-smelling flowers, are they not? As for the sick plums, they are the result of constant pruning and trimming by man. In this day and age, some people still admire sick plums and meticulously cultivate them for popular enjoyment. It so happened that as I finished reading Zhang Shimin's novel, two party mouthpieces, who personify morality, were invited to Shekou, Guangdong. One was surnamed Qu, the other Li. As soon as their preaching met with public resistance and criticism, the two "Yu Miaogens" told the young people to shut up in a threatening voice. Is this not a case of "sick plums" creating more "sick plums" in their own image? The attempt will only end in their utter failure.

This latest piece of news is a fitting footnote to *The Honored Cross*.

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